

STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC

*Materials for
Staff Presentation to the
Federal Open Market Committee*

July 9, 1985

Principal Assumptions

Monetary Policy

- Growth of M1 of around 8½ percent during 1985 and 5½ percent in 1986.

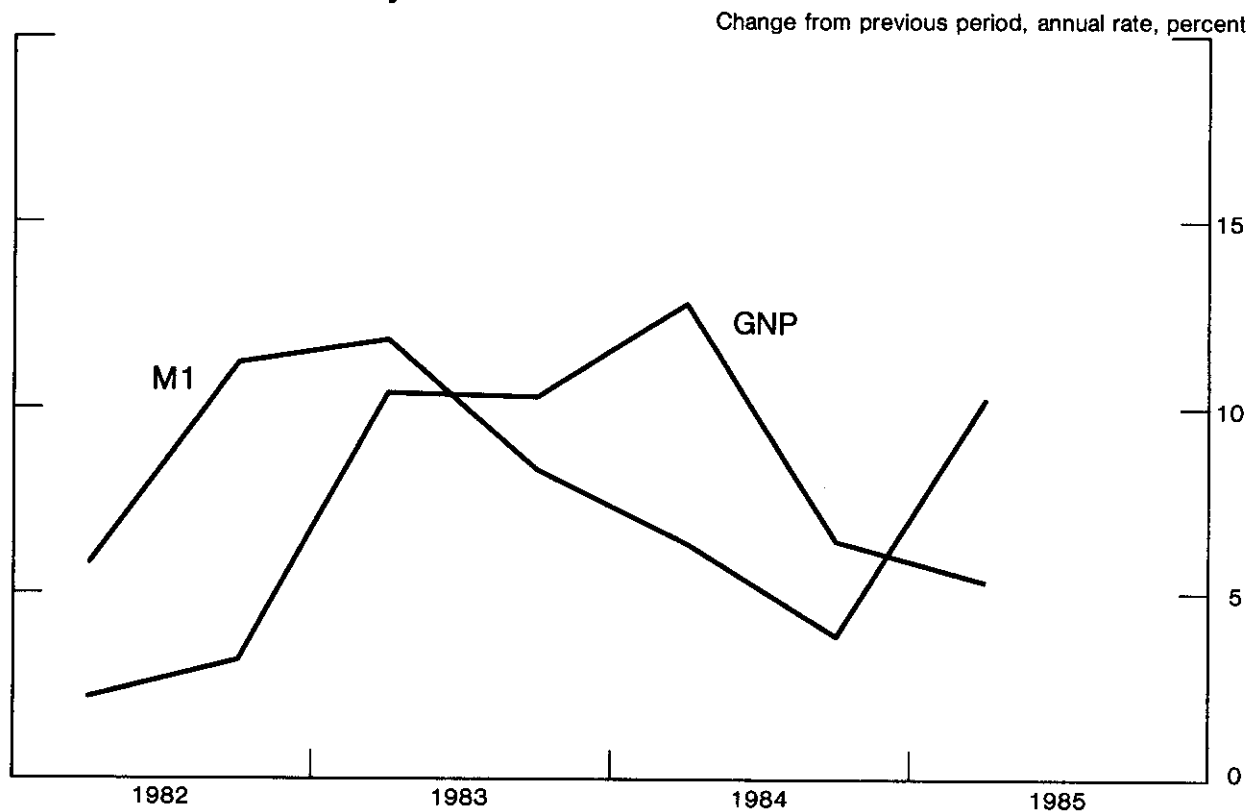
Fiscal Policy

- Deficit-reducing actions of around \$50 billion for FY 1986.

Other

- Foreign exchange value of the dollar declines at an 8 percent annual rate.

Growth in GNP and Money

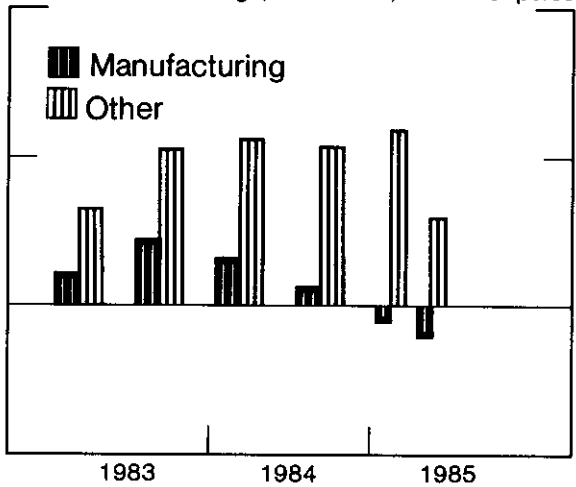


Federal Budget

	Unified budget, fiscal year, billions of dollars		
	1984	1985	1986
Outlays	842	940	969
Receipts	666	732	784
Deficit	175	208	185
Structural Deficit	126	160	158

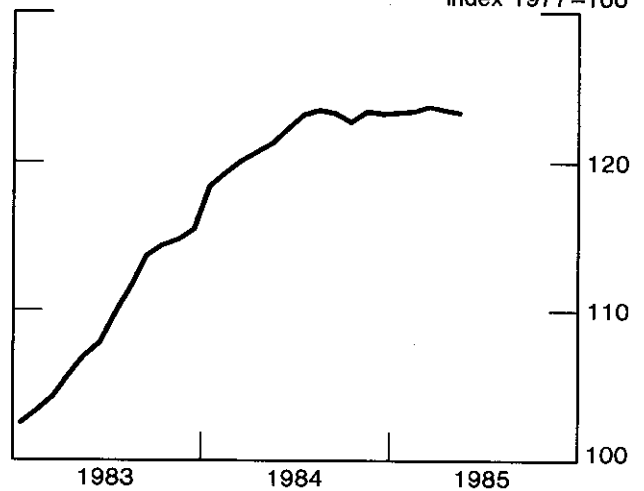
Employment

Change, annual rate, millions of persons



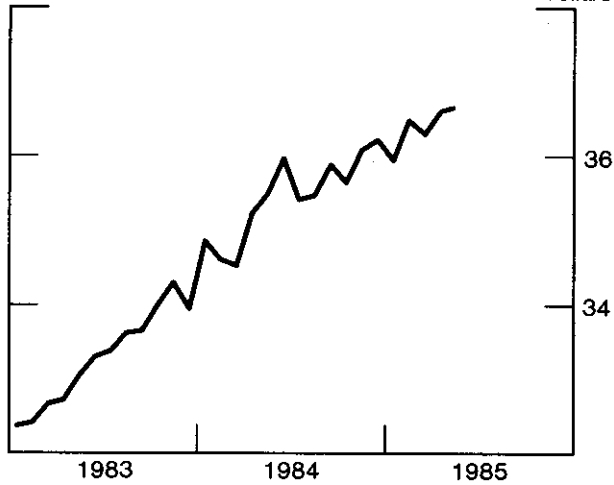
Industrial Production

Index 1977=100



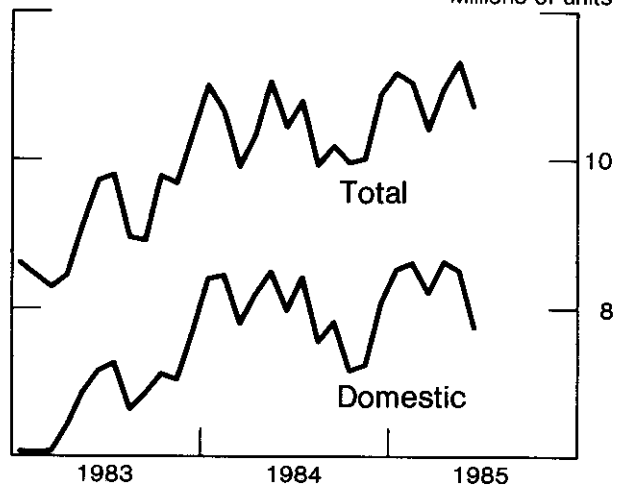
Real Retail sales

Billions of 1972 dollars



Automobile Sales

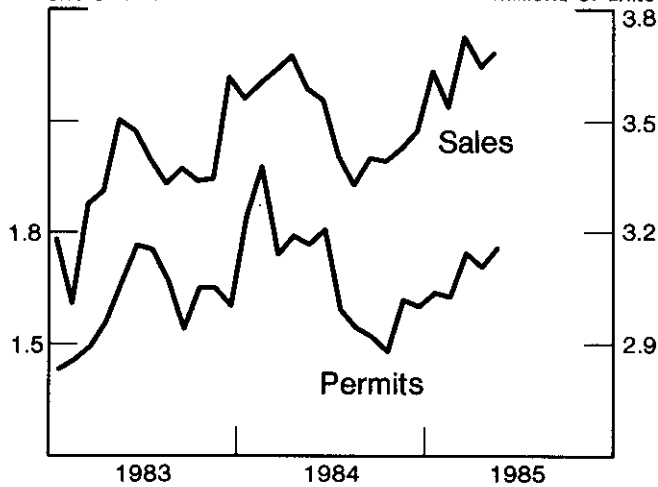
Millions of units



Housing Permits and Sales

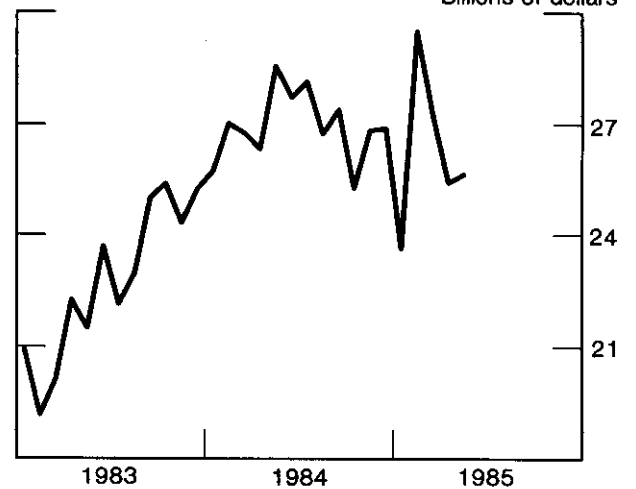
Millions of units

Millions of units

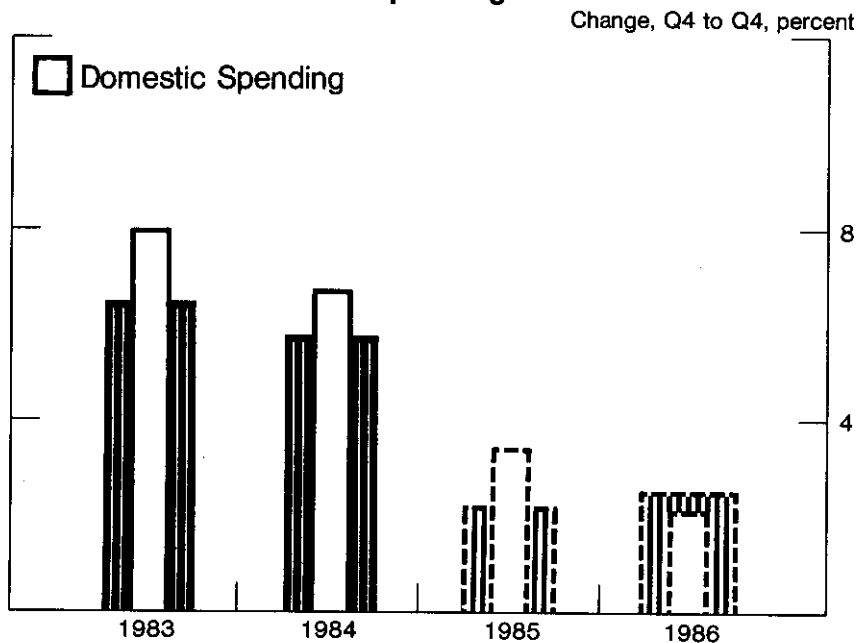


Orders for Nondefense Capital Goods

Billions of dollars

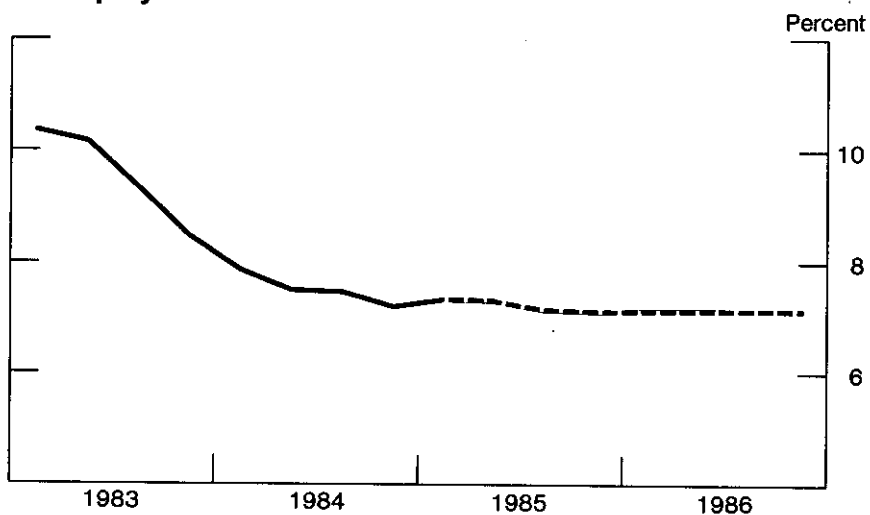


Real GNP and Domestic Spending



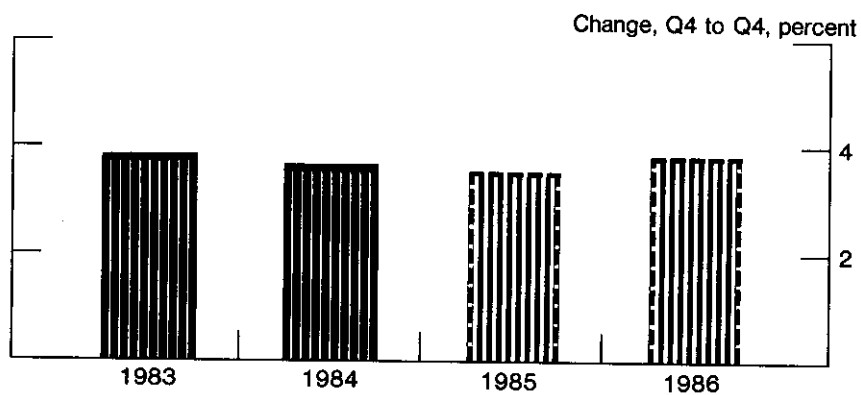
	Real GNP	Real Domestic Spending
1983	6.3	8.0
1984	5.7	6.7
1985	2.2	3.4
1986	2.5	2.1

Unemployment Rate



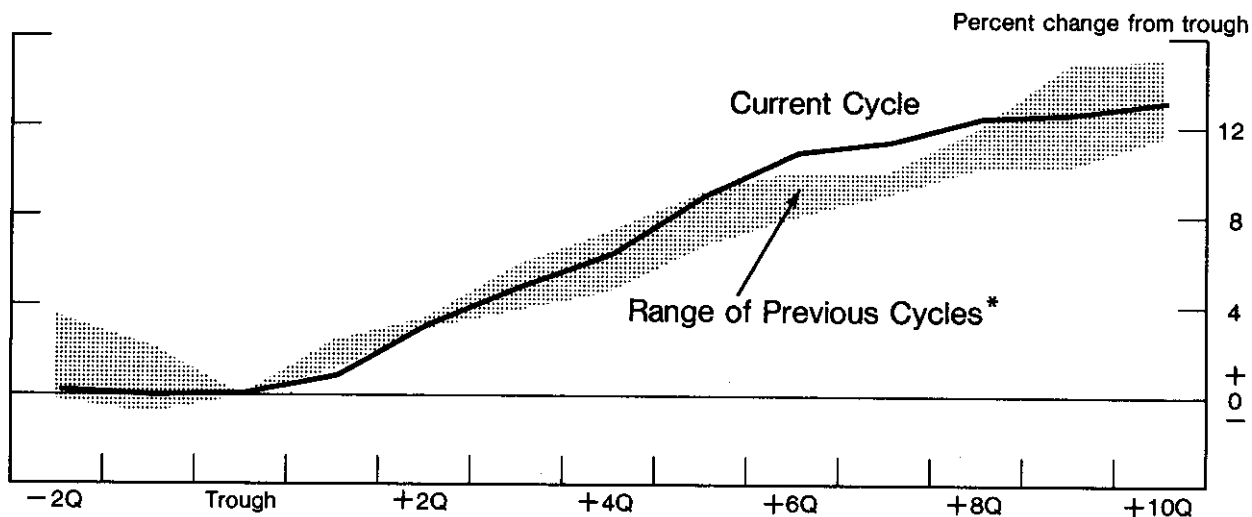
	Q4 Level
1983	8.5
1984	7.2
1985	7.1
1986	7.1

GNP Deflator

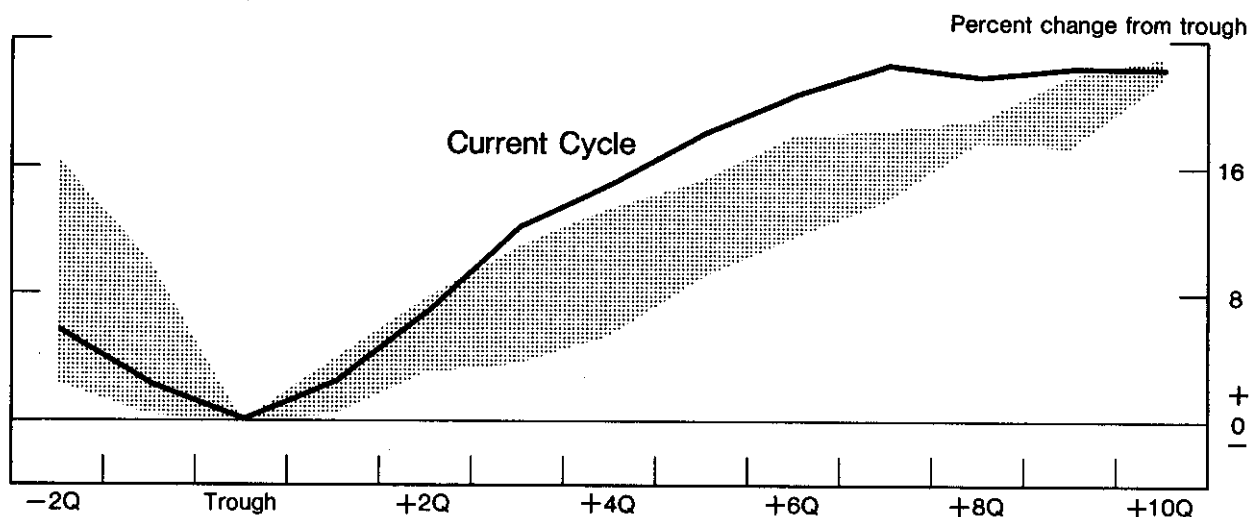


1983	3.8
1984	3.6
1985	3.5
1986	3.8

Real Gross National Product



Industrial Production

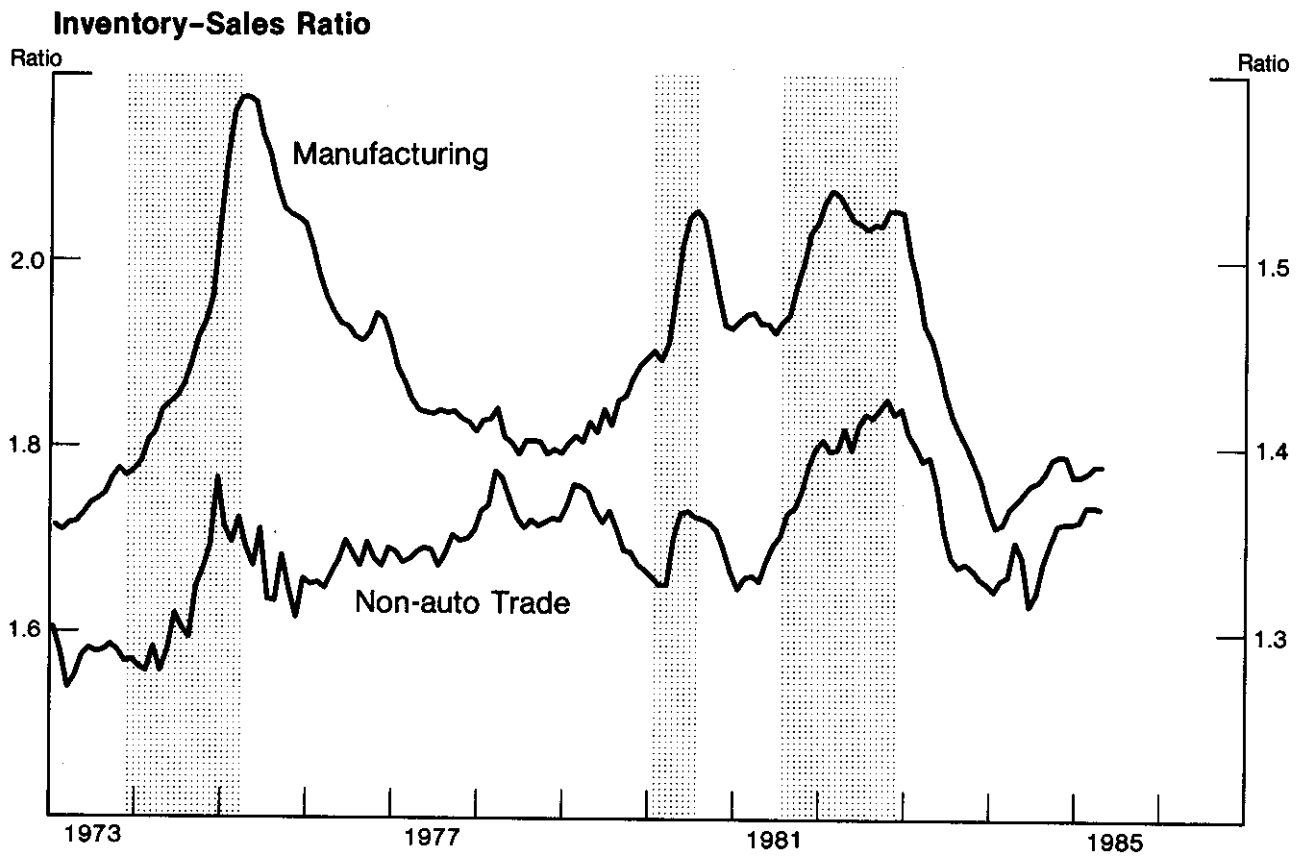


Current Cycle

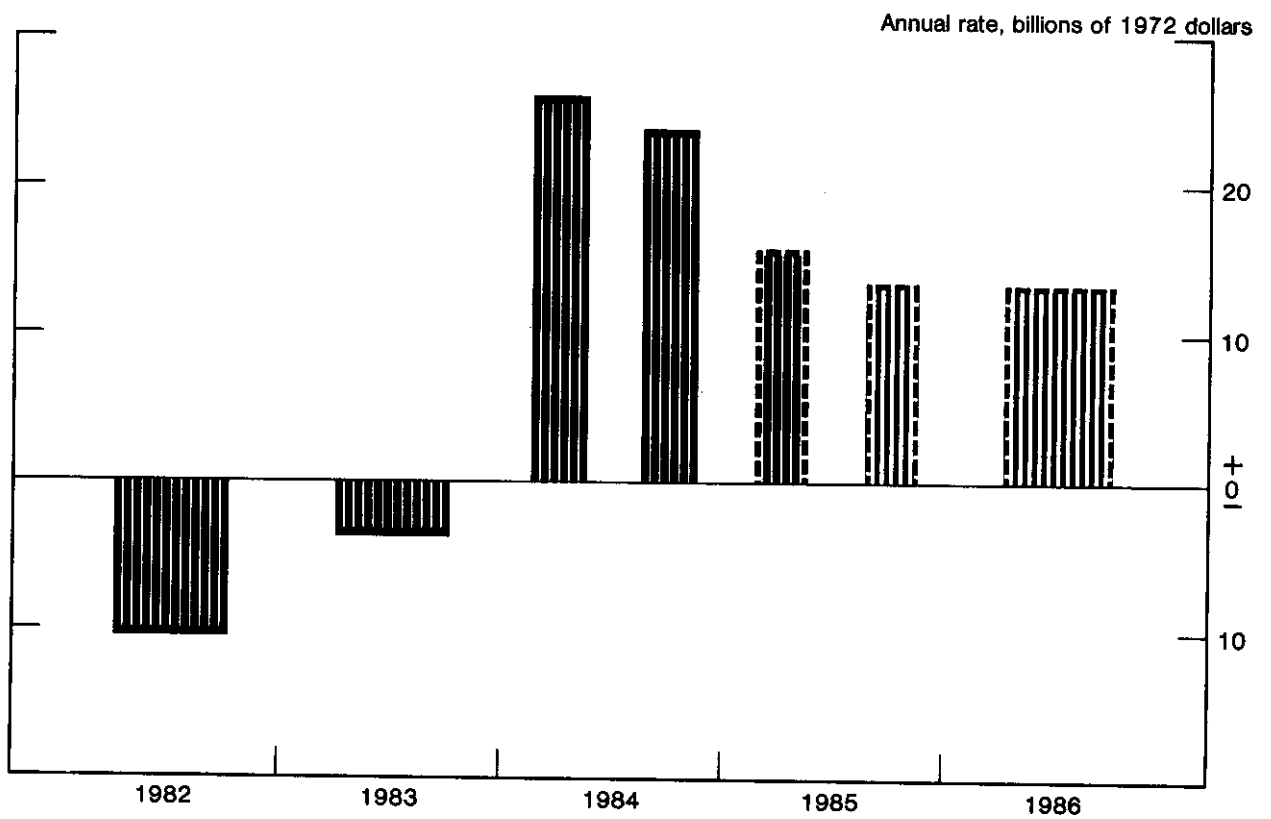
	Percent changes, annual rates	
	First 6 Quarters	Next 4 Quarters
Real GNP	7.1	2.0
Domestic Purchases GNP Less Net Exports	8.8	3.3
Domestic Final Purchases Domestic Purchases Less Inventory Investment	6.7	3.8

* Includes cycles with troughs in 1954, 1961, 1970, 1975.

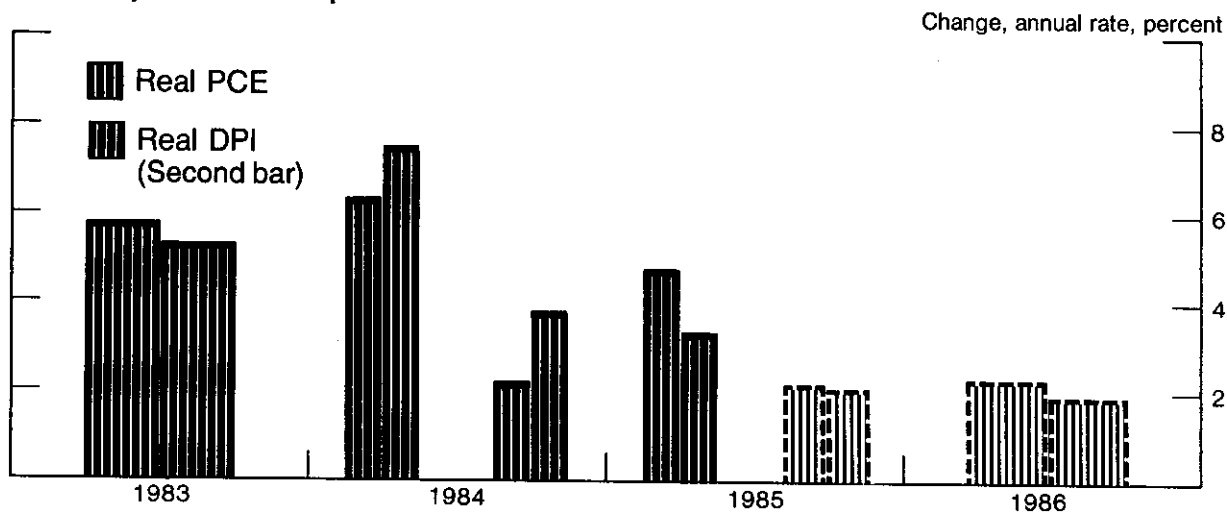
Inventory Investment



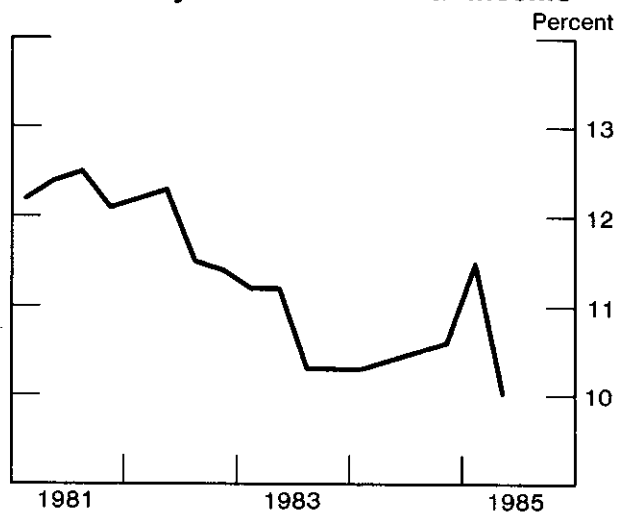
Real Inventory Investment



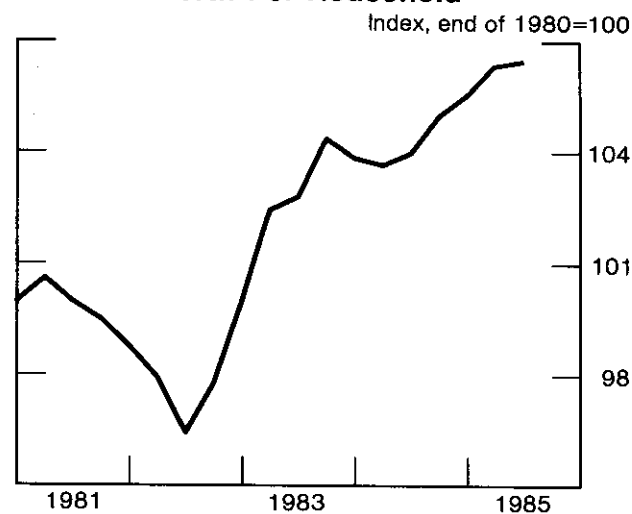
Consumption and Disposable Income



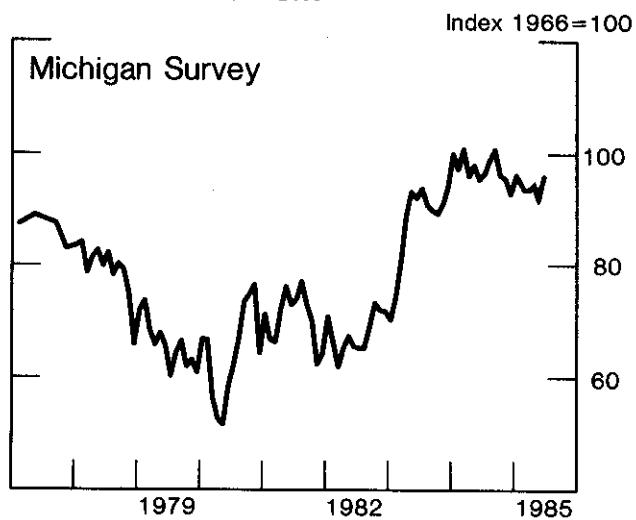
Net Tax Payments to Personal Income



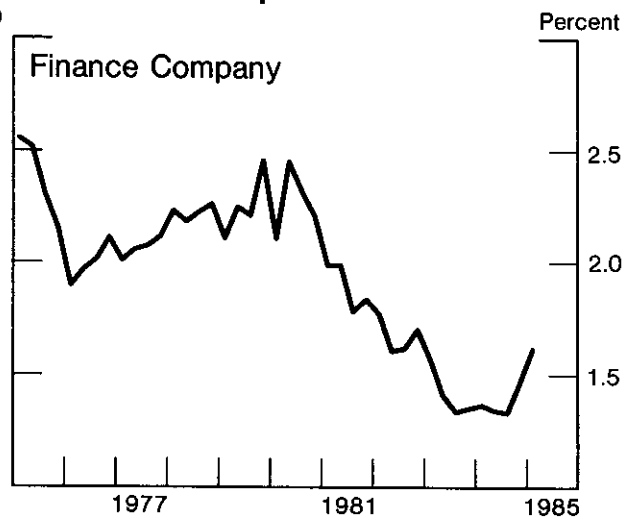
Real Net Worth Per Household



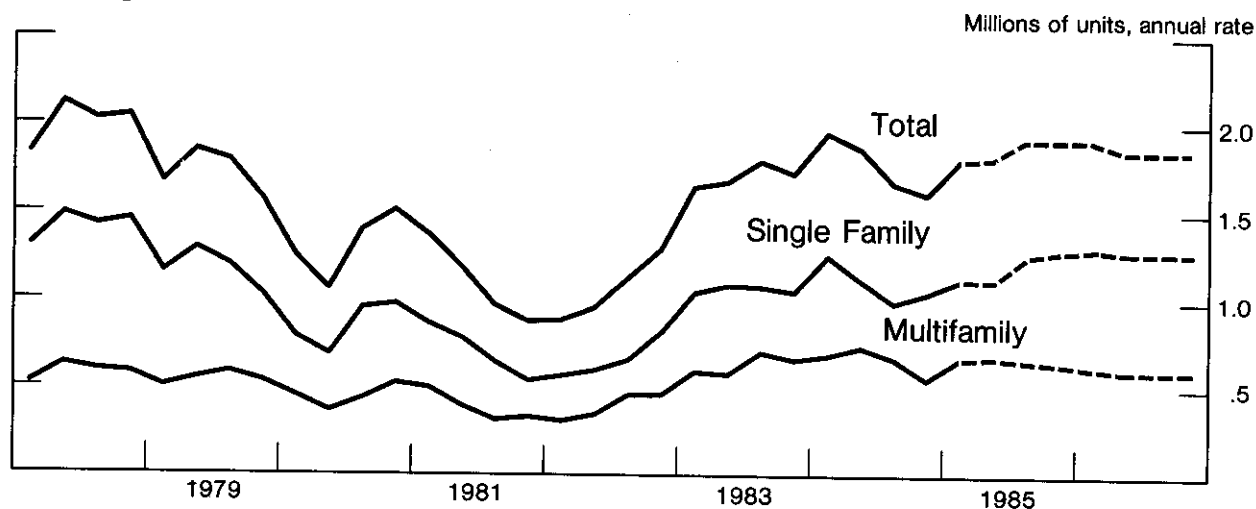
Consumer Sentiment



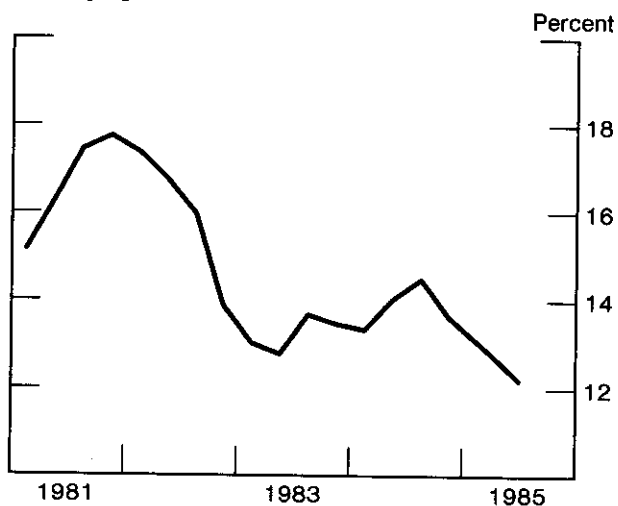
Auto Loan Delinquencies



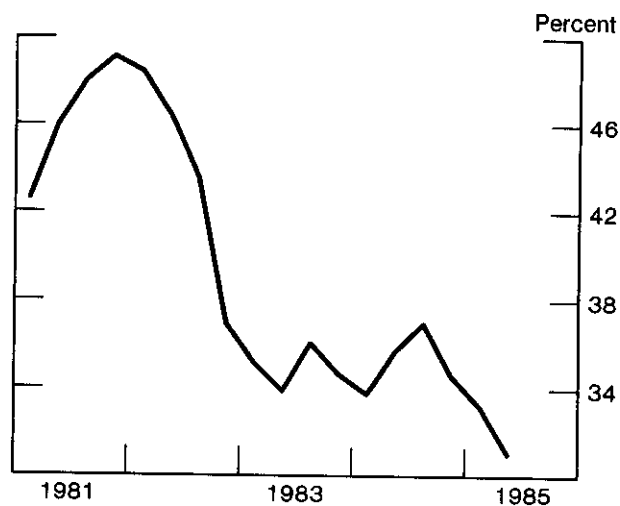
Housing Starts



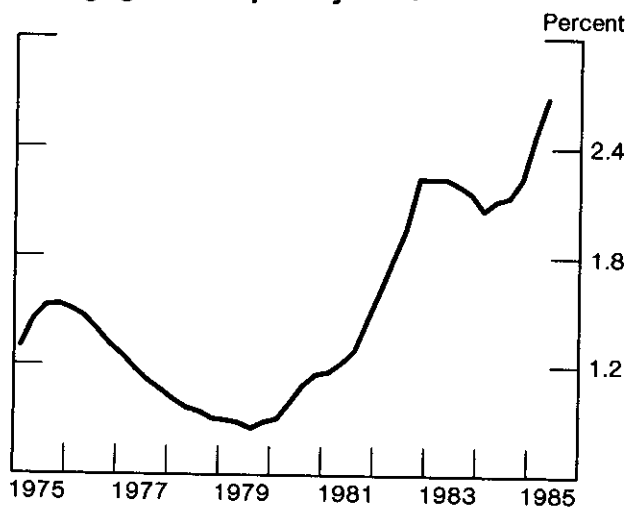
Mortgage Rate



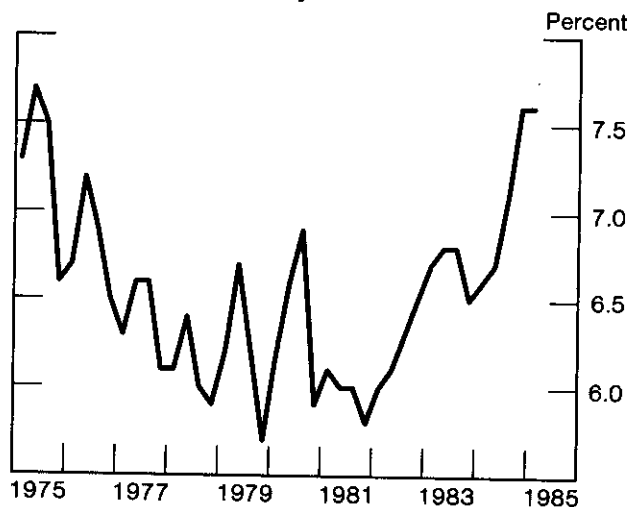
Mortgage Payment as Percent of Disposable Income



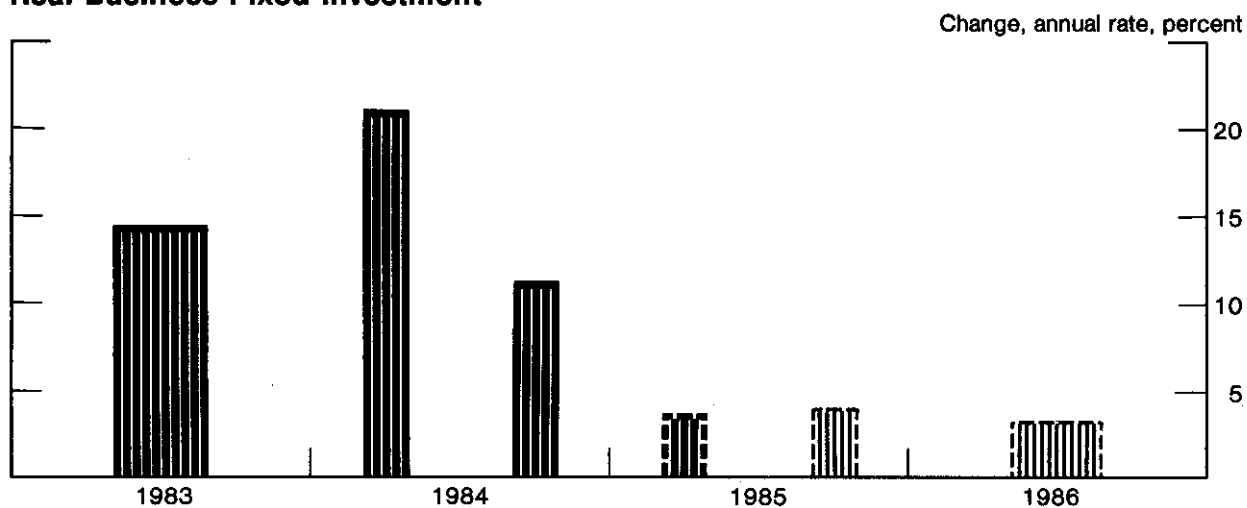
Mortgage Delinquency Rate



Multifamily Vacancy Rate

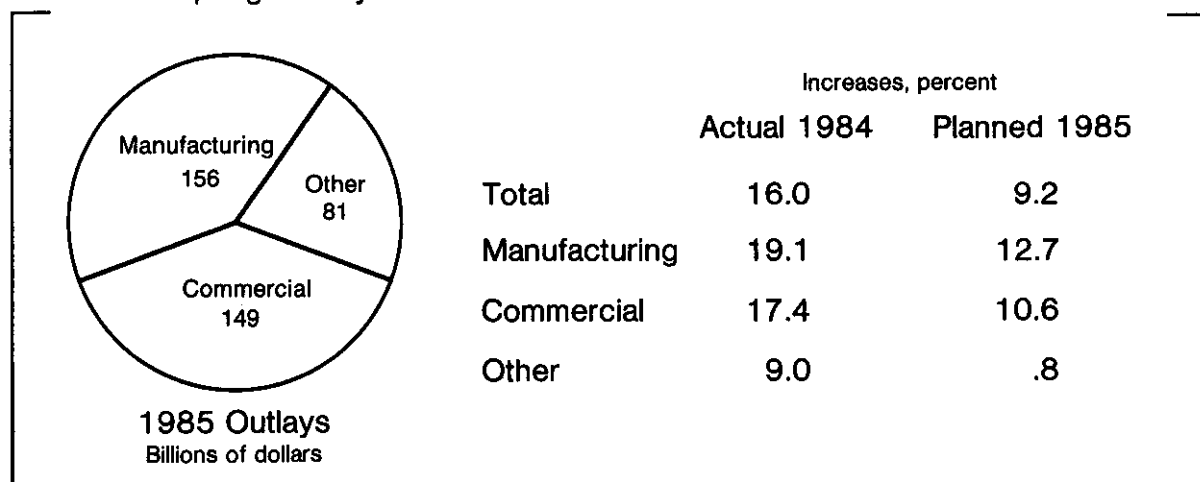


Real Business Fixed Investment

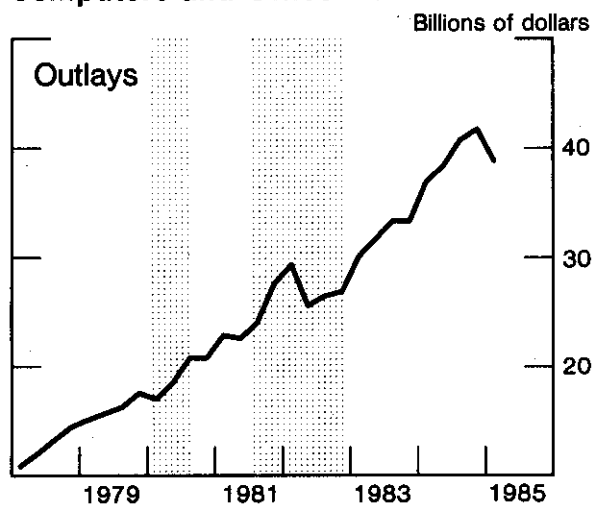


Plant and Equipment Spending Plans

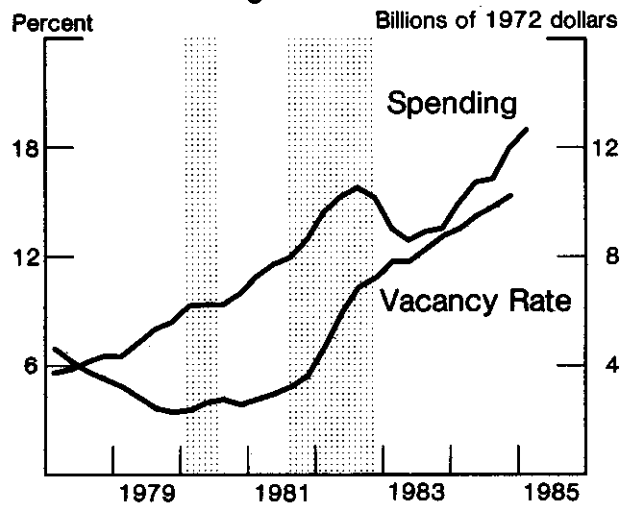
Commerce Spring Survey



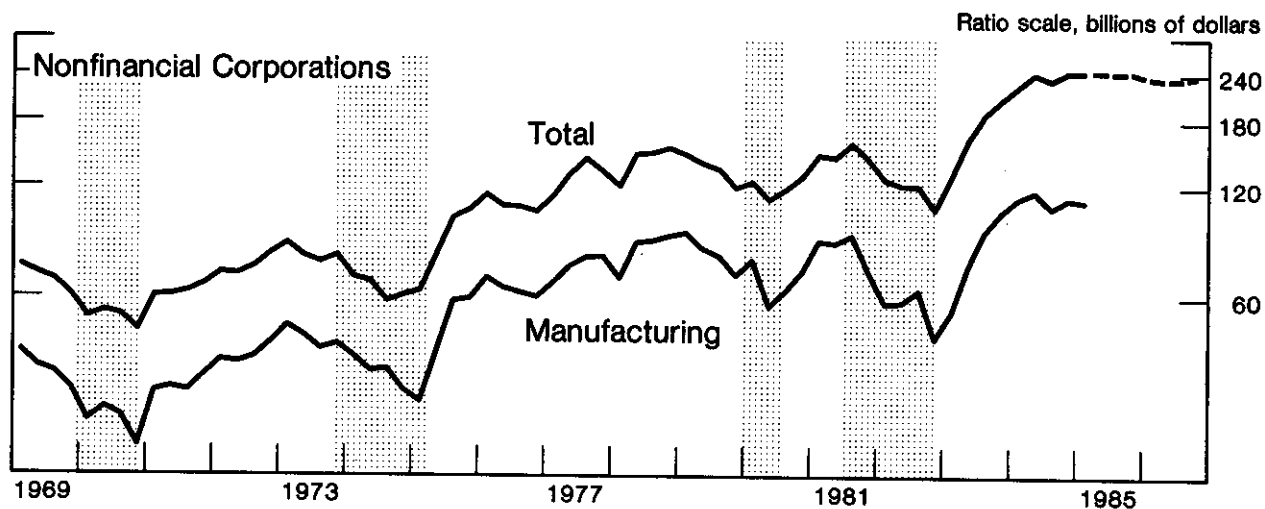
Computers and Office Machines



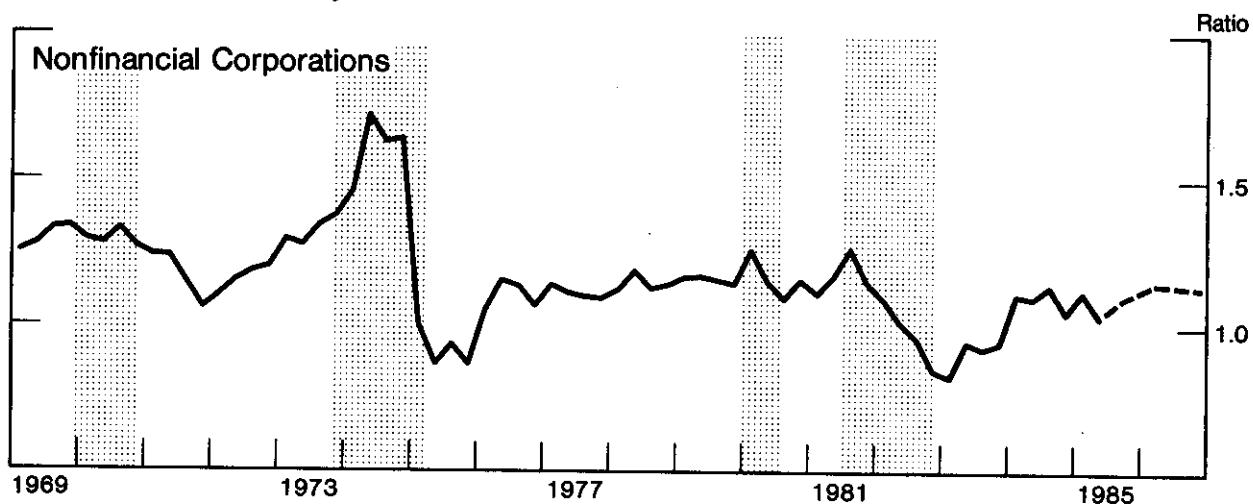
Office Building and Vacancies



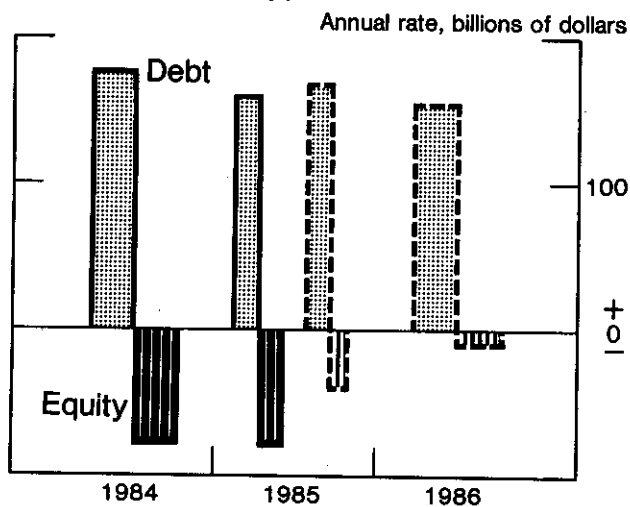
Economic Profits Before Tax



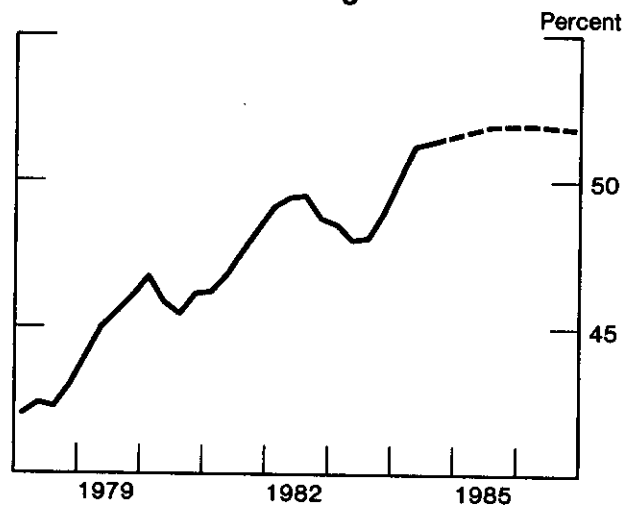
Ratio of Capital Outlays to Internal Funds



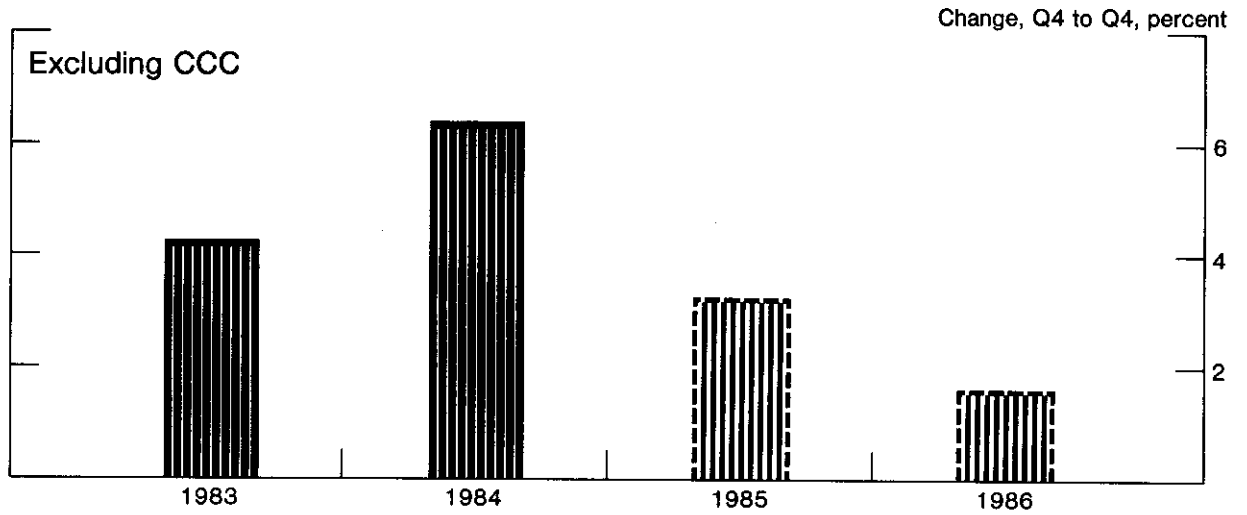
Total Funds Raised



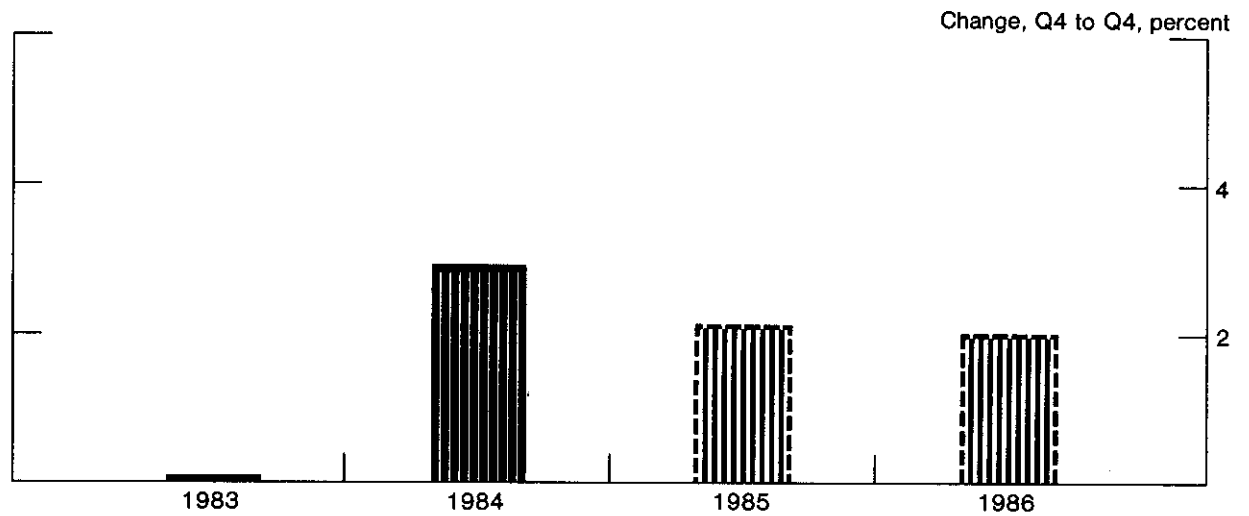
Short-term Debt to Total Debt Outstanding



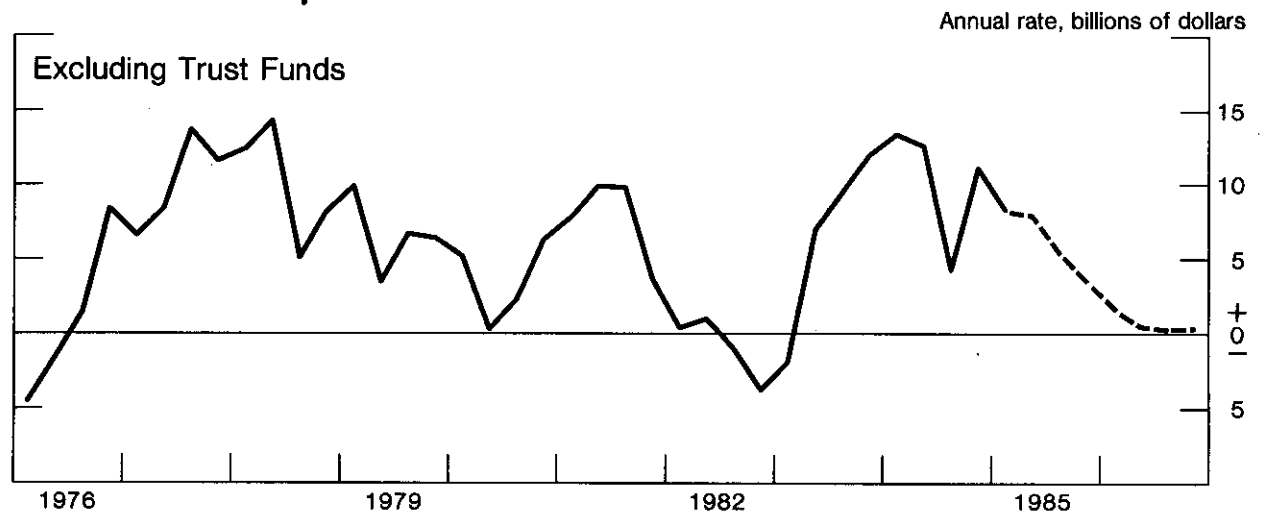
Real Federal Government Purchases



Real State and Local Government Purchases



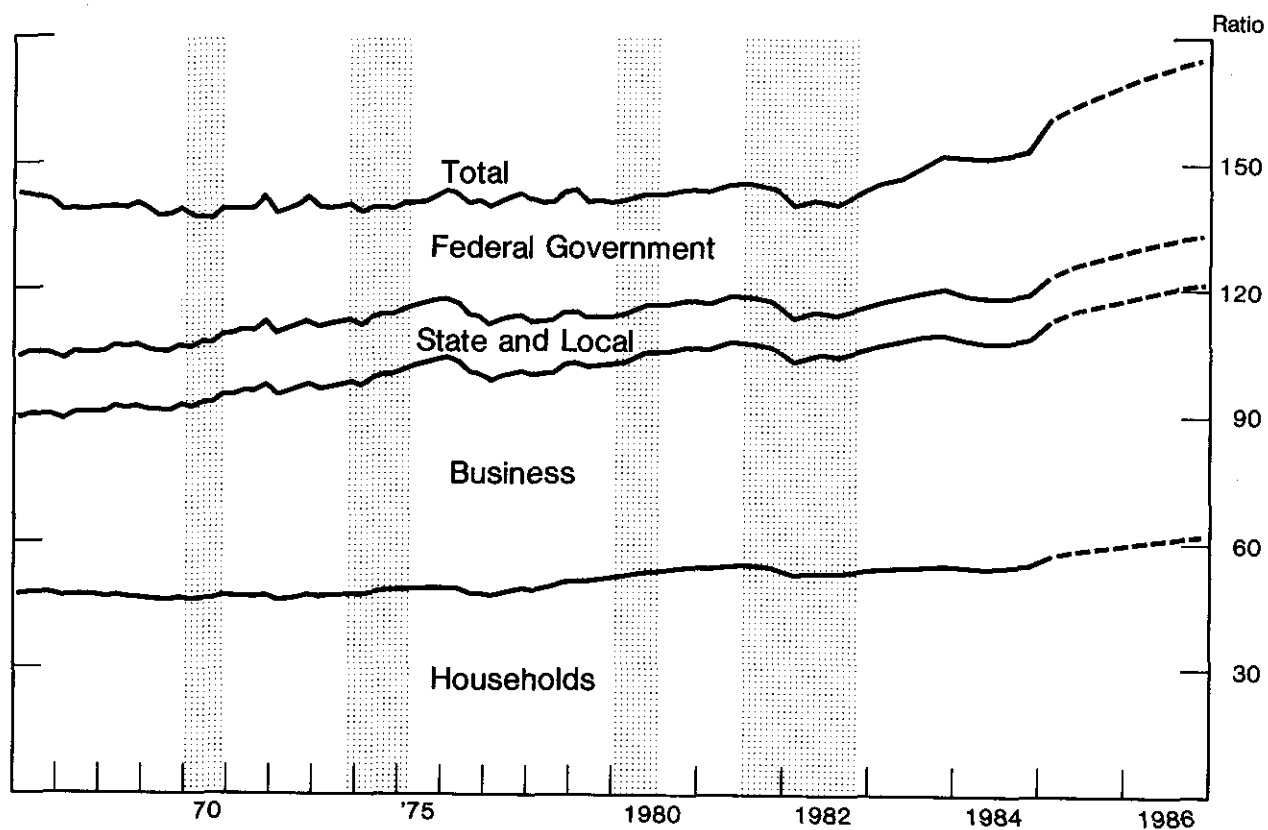
State and Local Surplus



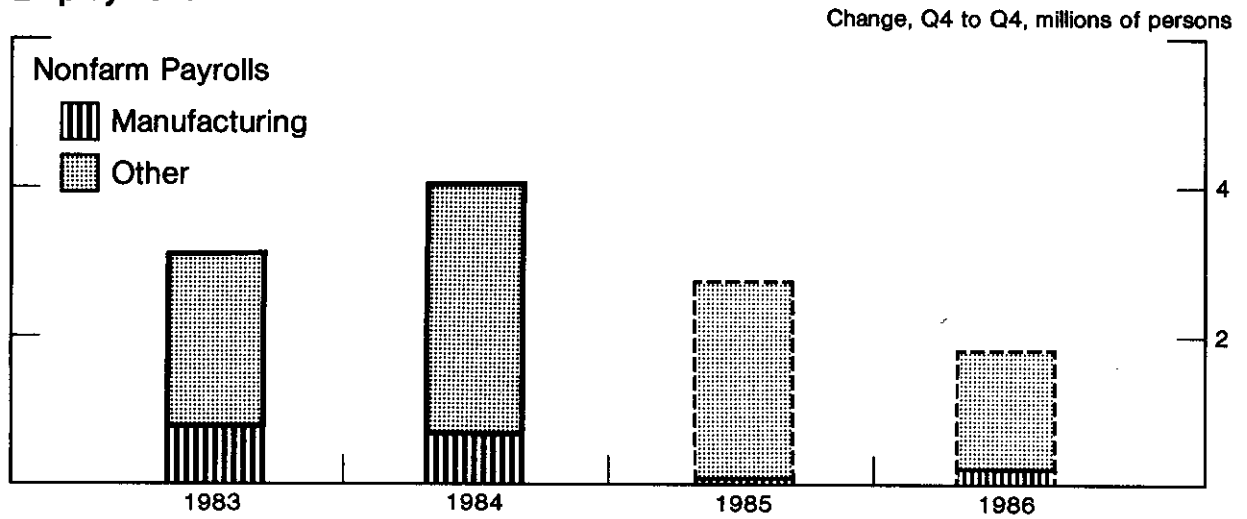
Borrowing by Domestic Nonfinancial Sectors

	Billions of dollars		
	1984	1985	1986
Federal Government	199	202	181
State and Local	37	49	38
Households	242	247	256
Business	257	228	220
Total	734	726	696
Memo: Debt growth rate, percent	14.0	12.1	10.4

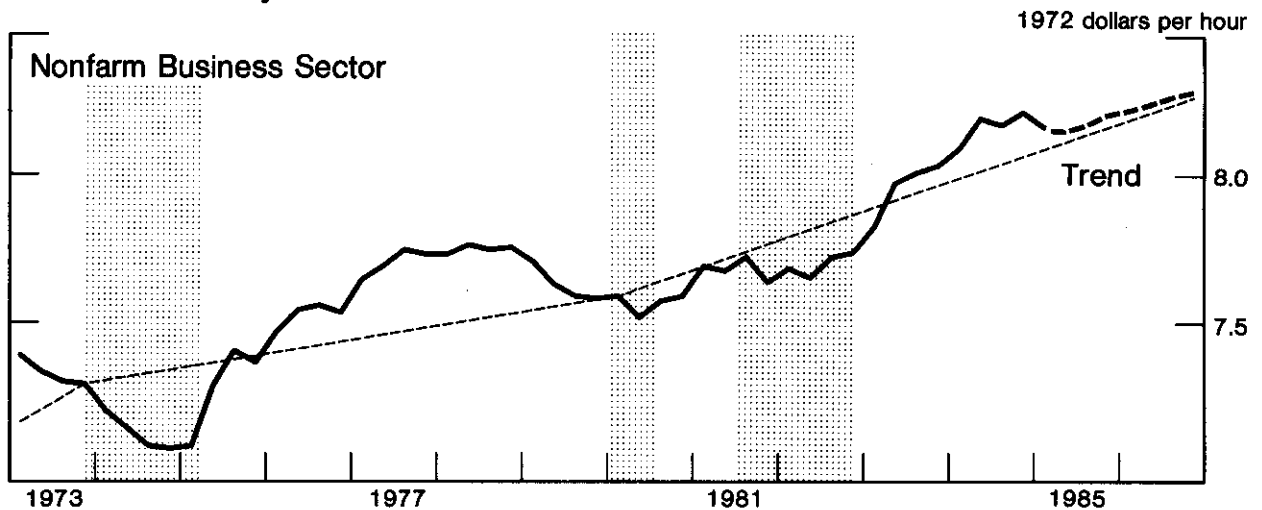
Debt Relative to GNP



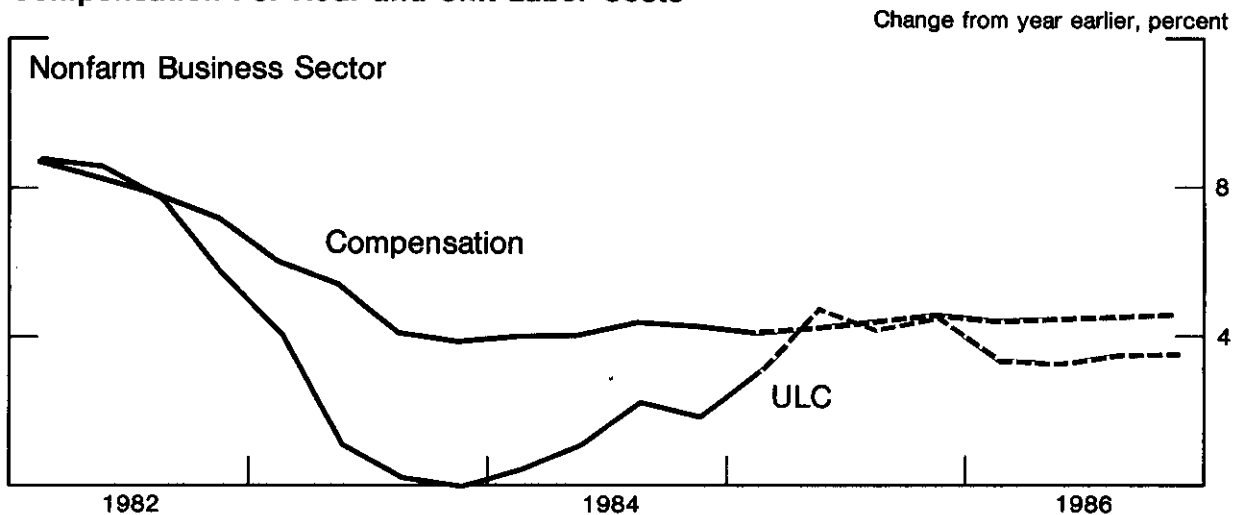
Employment



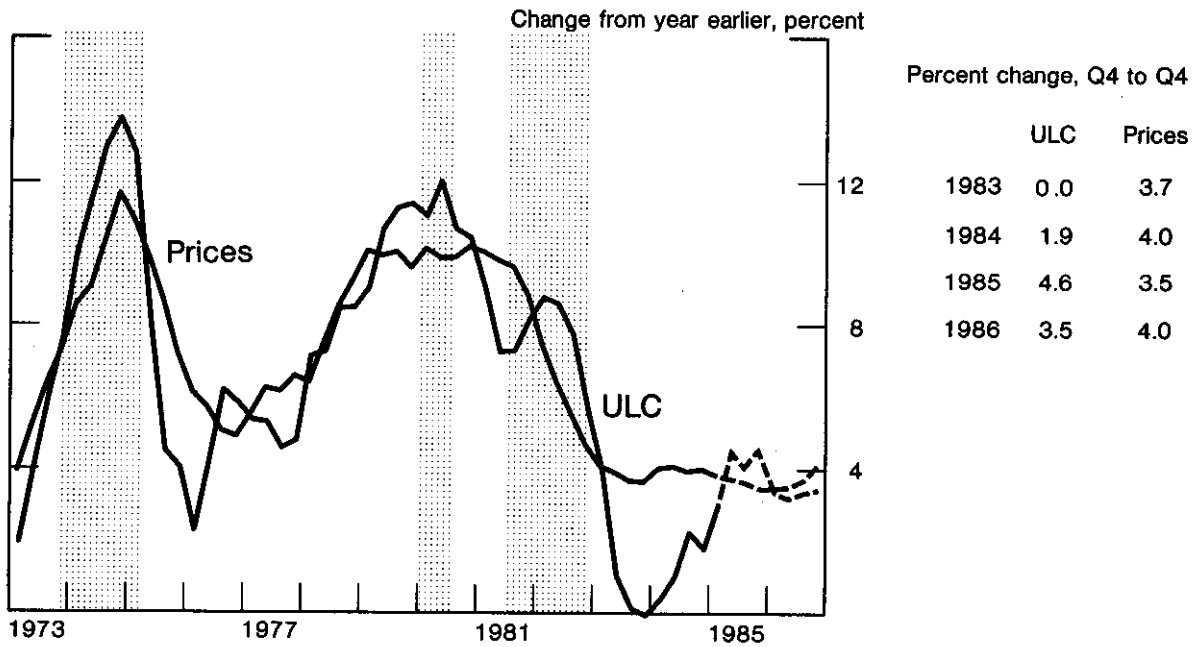
Labor Productivity



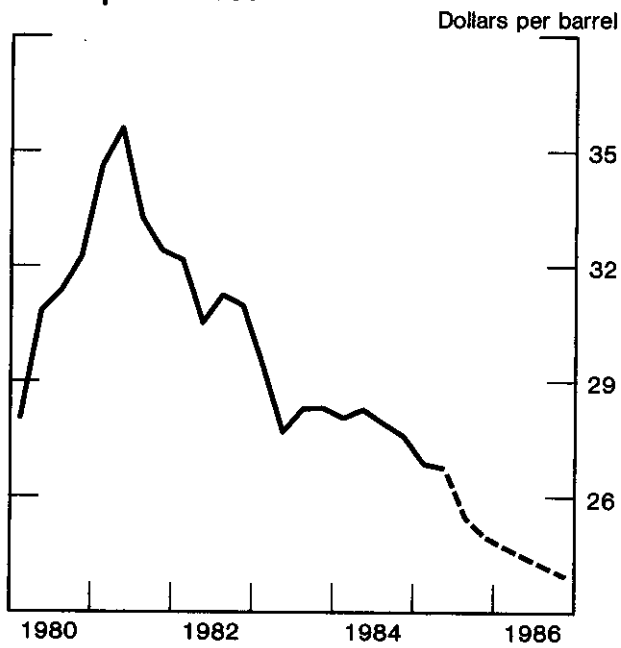
Compensation Per Hour and Unit Labor Costs



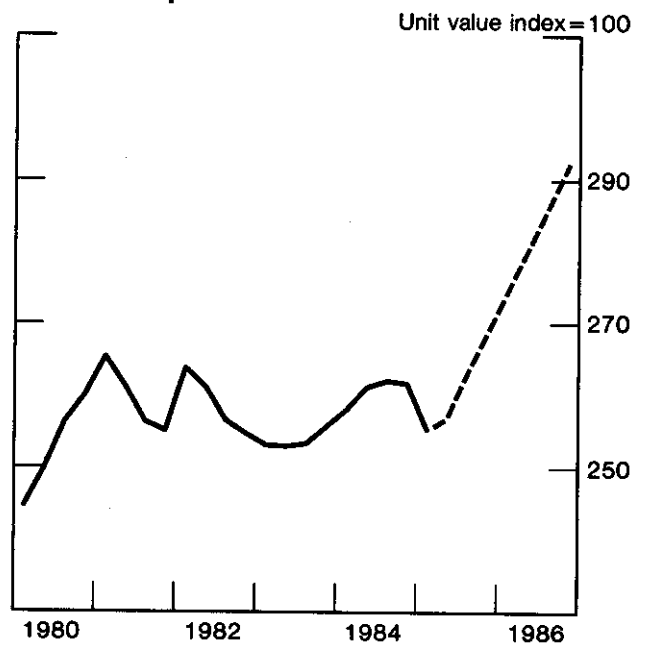
Business Product Prices and Unit Labor Costs



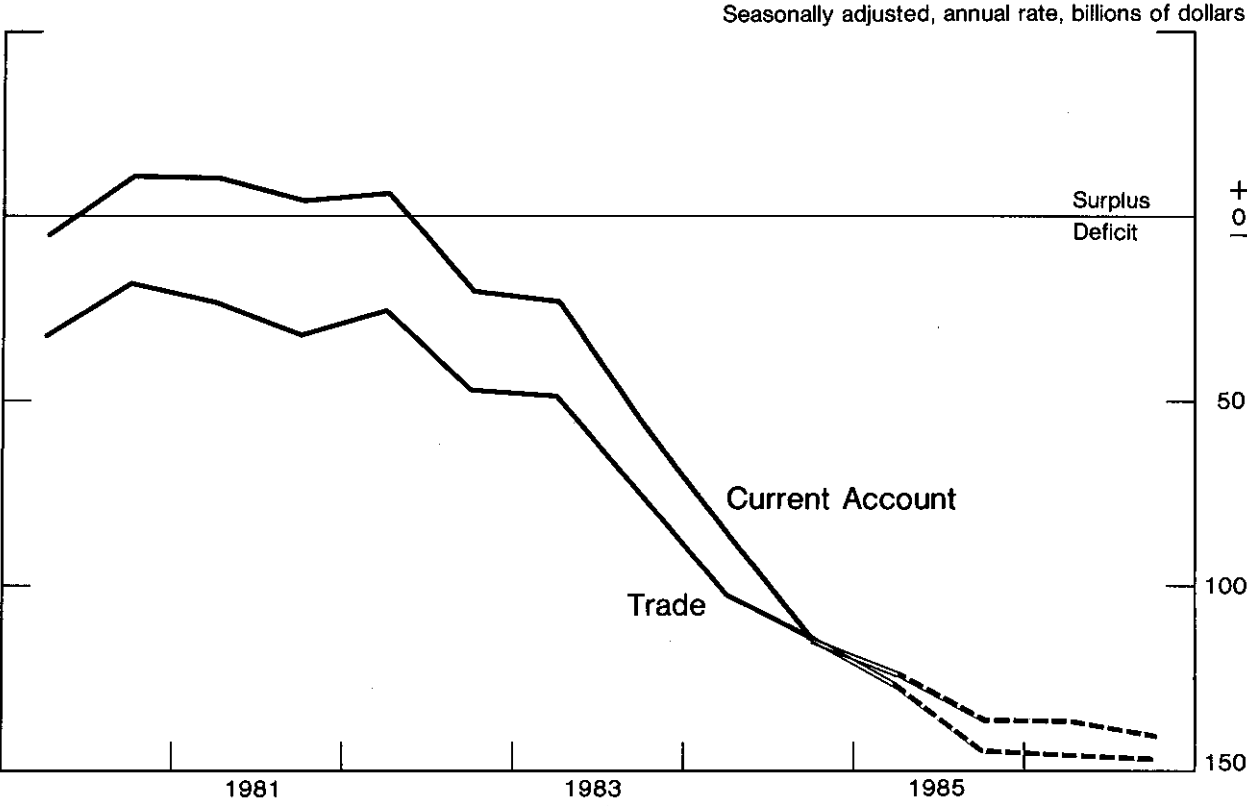
Oil Import Prices



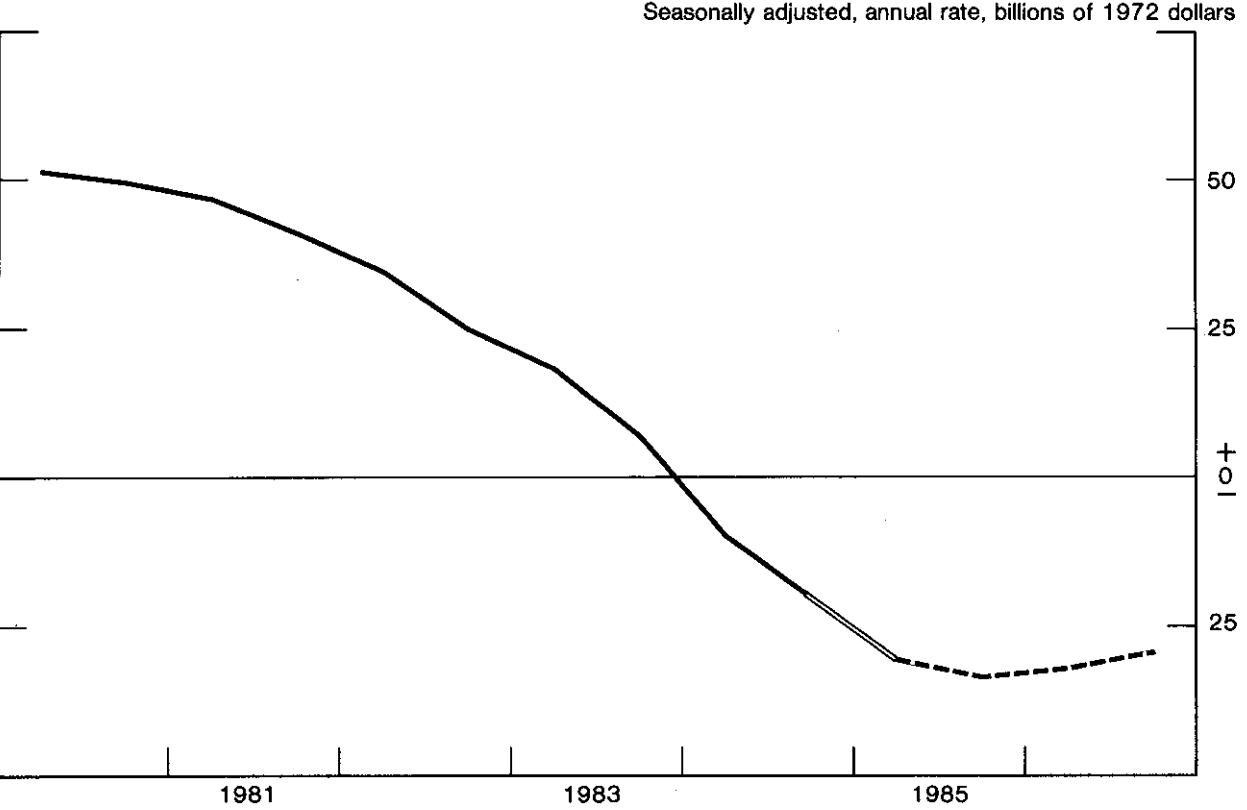
Non-oil Import Prices



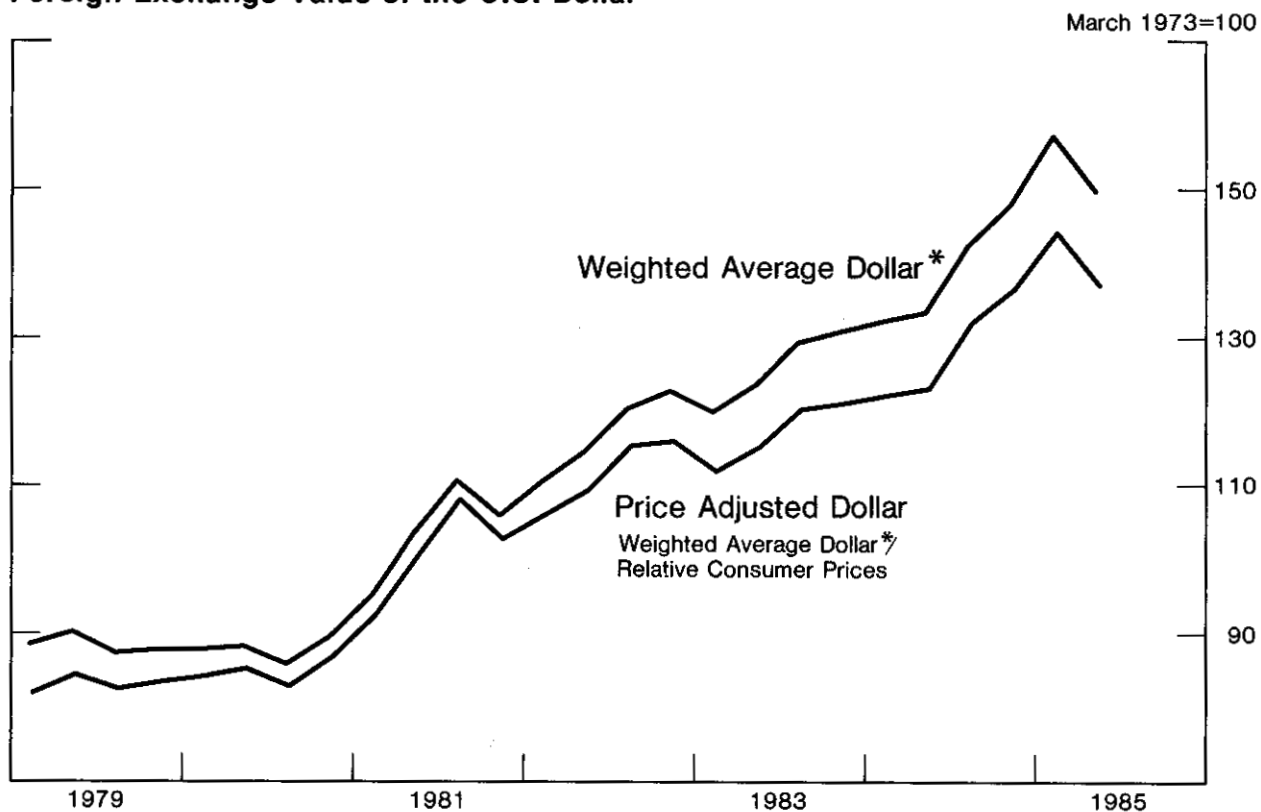
External Balances



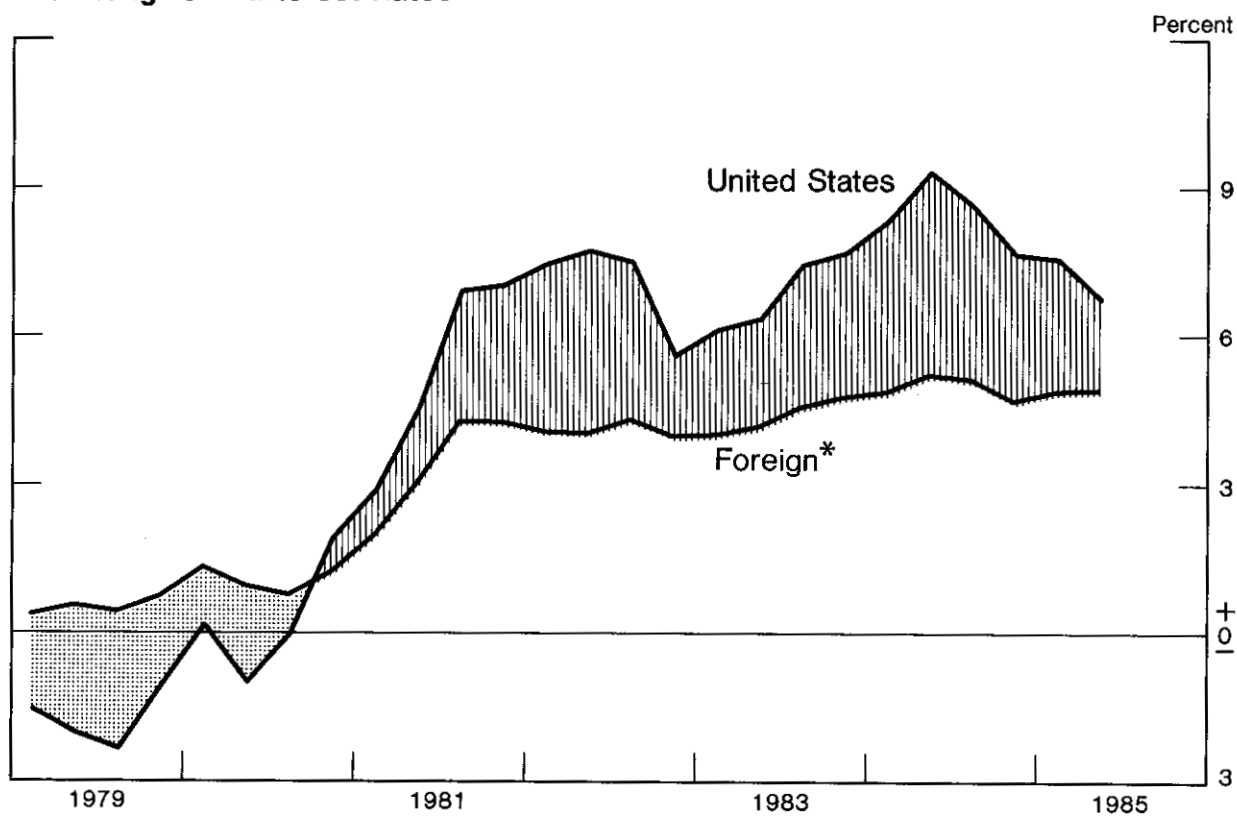
Real Net Exports of Goods and Services



Foreign Exchange Value of the U.S. Dollar



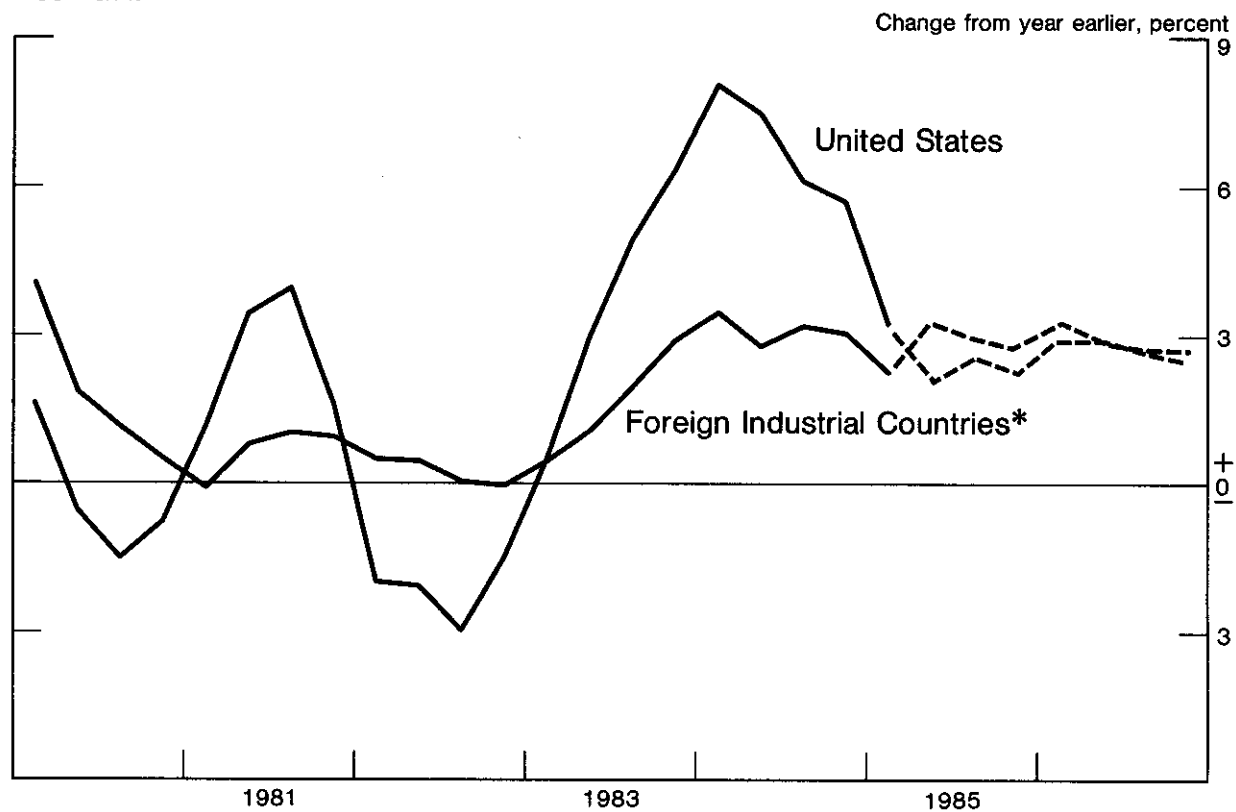
Real Long-term Interest Rates**



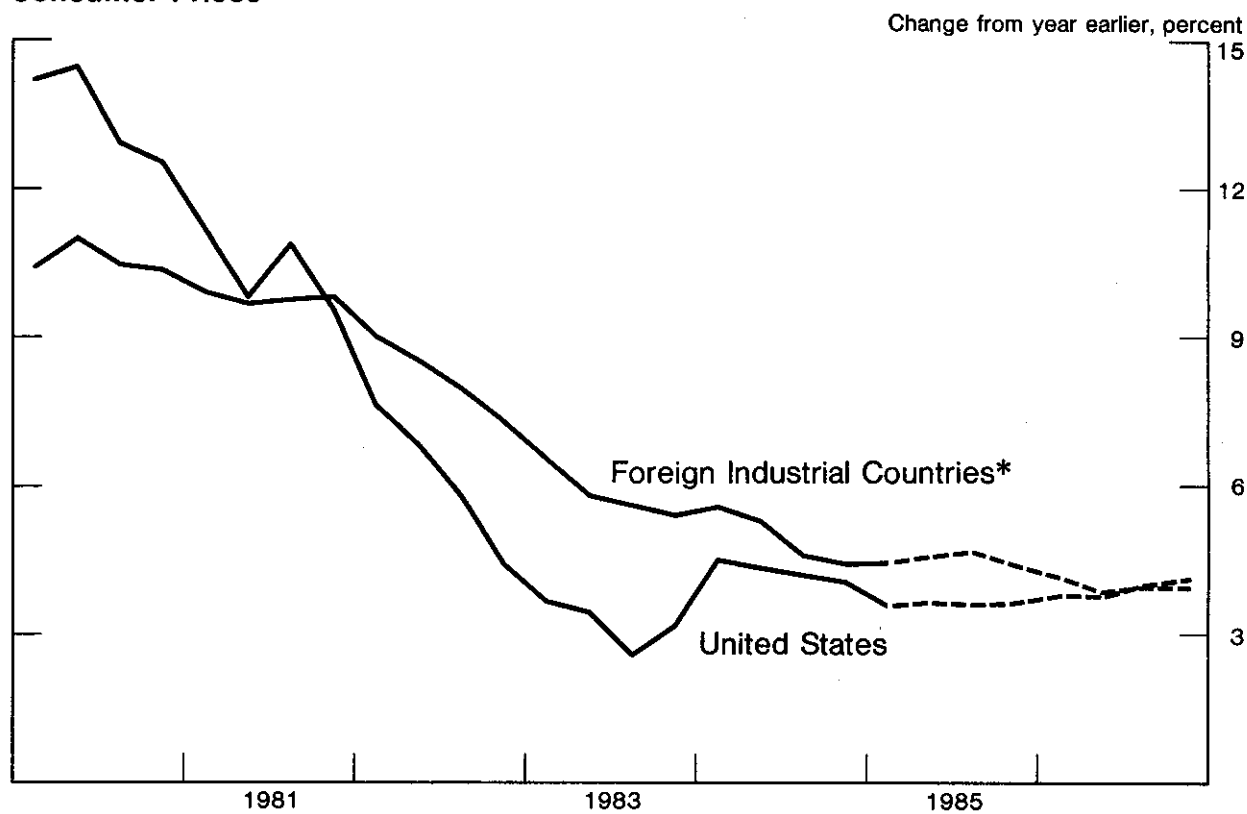
*Weighted average against or of foreign G-10 countries using total 1972-76 average trade.

**Long-term government or public authority bond rates adjusted for expected inflation estimated by a 36-month centered moving average of actual inflation (staff forecasts where needed).

Real GNP

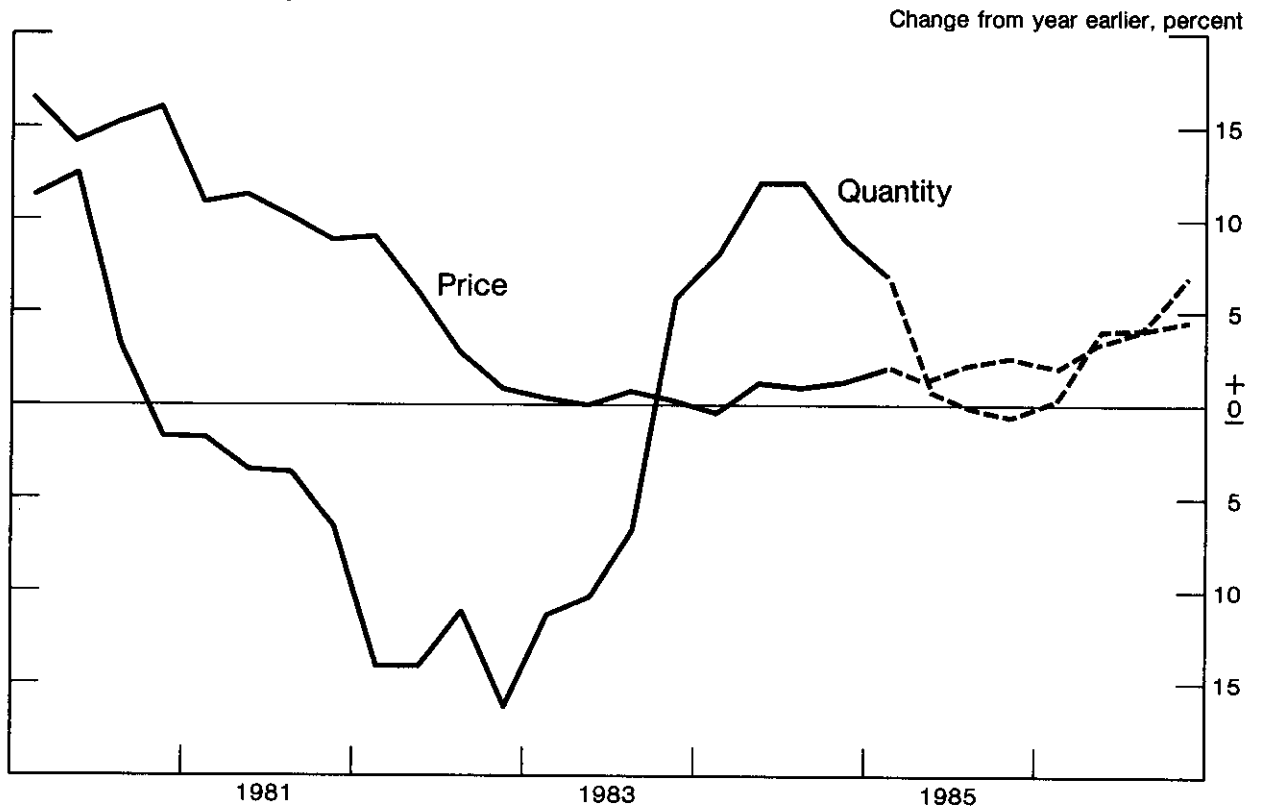


Consumer Prices

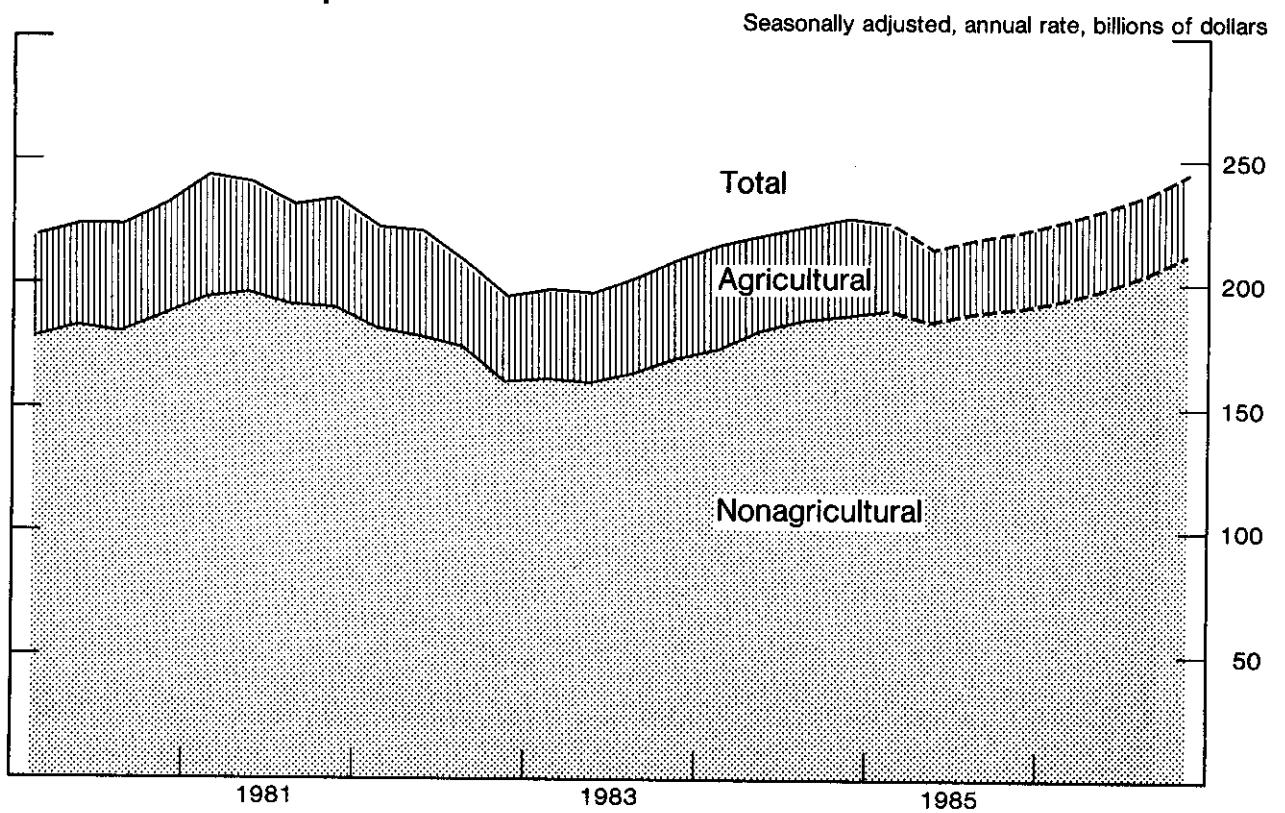


* Weighted average of foreign G-10 countries using total 1972-76 average trade.

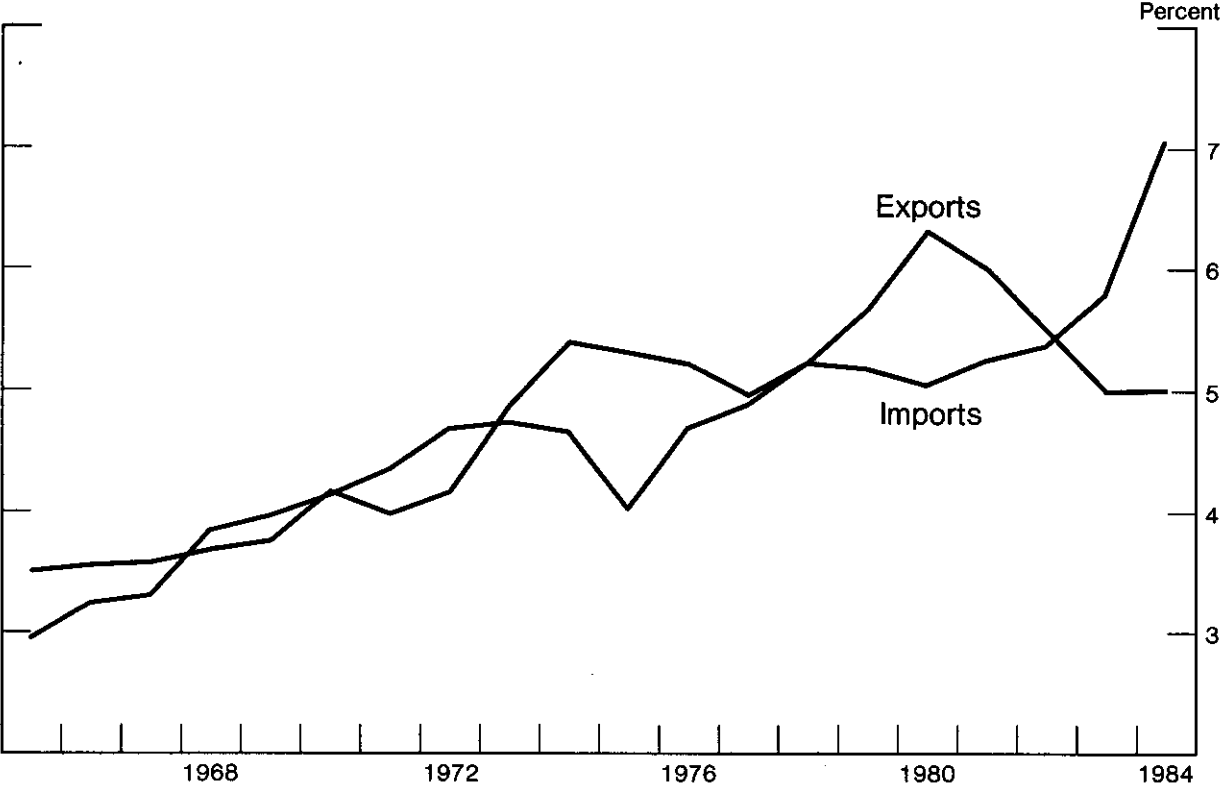
Nonagricultural Exports



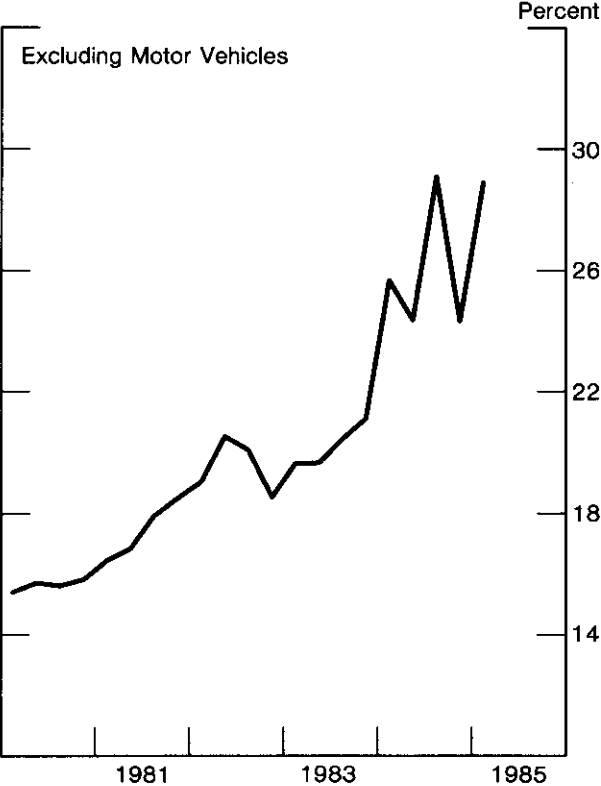
U.S. Merchandise Exports



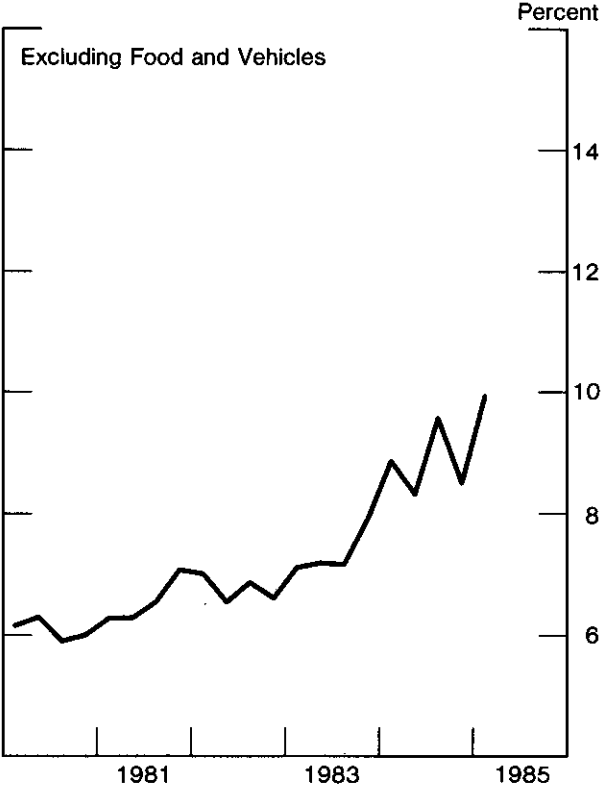
Exports and Imports Relative to Real GNP



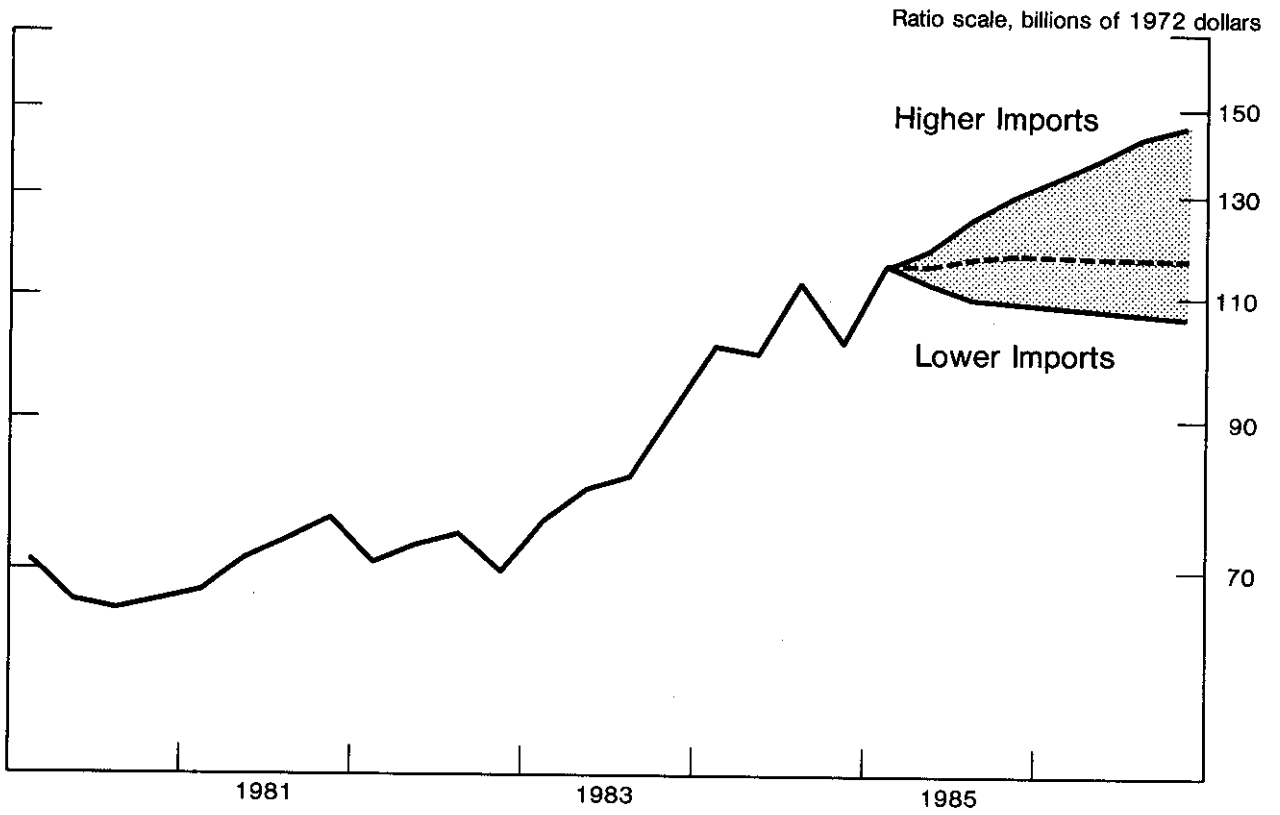
**Capital Goods Imports
Relative to Real PDE**



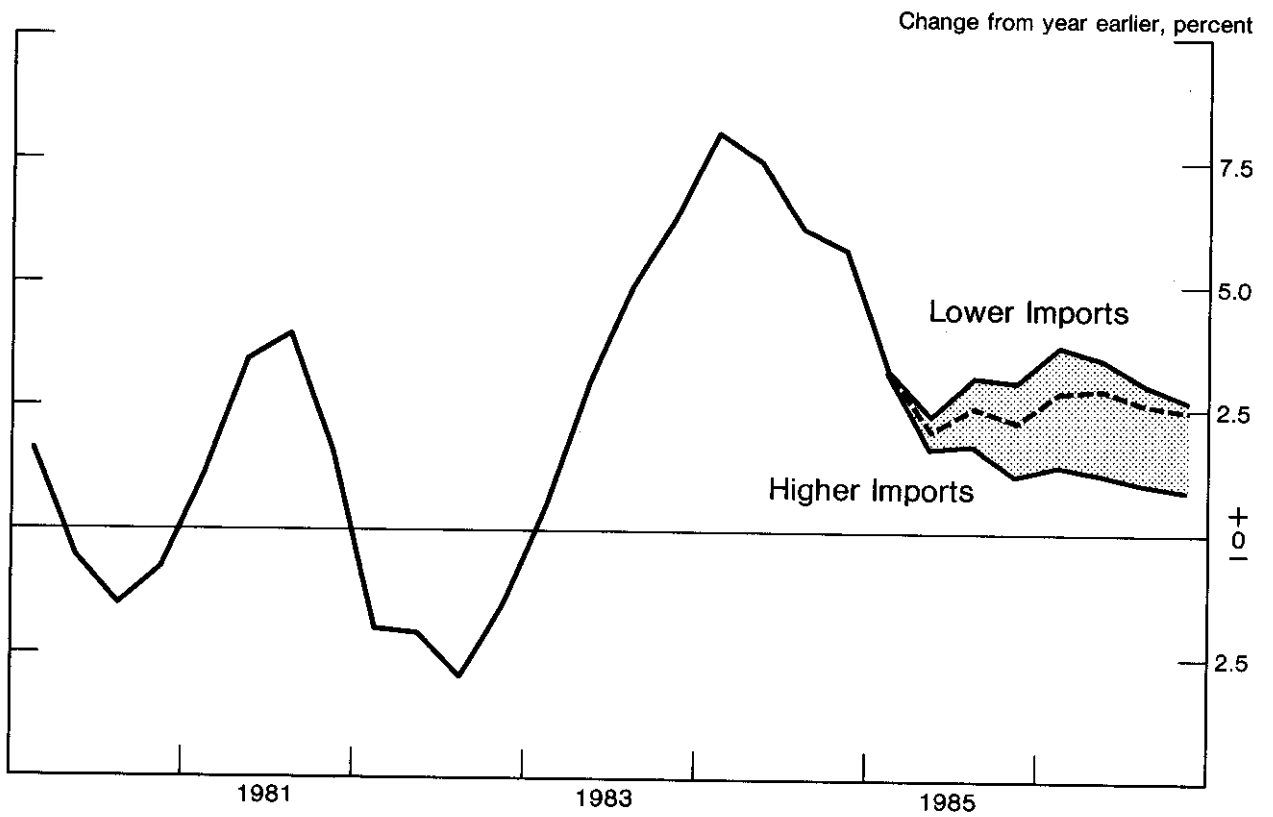
**Consumer Goods Imports
Relative to Real PCE**



Volume of Non-oil Imports



Real GNP



Forecast Summary

	Board Members		Presidents		Staff
Percent change, Q4 to Q4	Range	Median	Range	Median	
Nominal GNP					
1985	6¼ to 7	6½	6½ to 7¾	7	5¾
1986	5½ to 7½	7	6½ to 8½	7½	6¼
Real GNP					
1985	2¼ to 3¼	2½	2½ to 3¼	2¾	2¼
1986	2 to 3½	2½	2 to 4	3	2½
GNP Deflator					
1985	3½ to 4	3¾	3¾ to 4¼	4	3½
1986	3 to 4¾	4½	3½ to 5½	4¼	3¾
Average level, percent					
Unemployment Rate					
1985	6¾ to 7¼	7	7 to 7¼	7¼	7
1986	6¾ to 7½	7¼	6¾ to 7½	7	7

FOMC Projections for 1985

Reported to Congress Feb. 20, 1985

	Range	Central Tendency
Percent change, Q4 to Q4		
Nominal GNP	7 to 8½	7½ to 8
Real GNP	3¼ to 4¼	3½ to 4
GNP Deflator	3 to 4¾	3½ to 4
Average level, Q4, percent		
Unemployment Rate	6½ to 7¼	6¾ to 7